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**BALANCING THE TENSIONS  
BETWEEN THE CONTROL AND  
INNOVATIVE ROLES OF  
MANAGEMENT CONTROL SYSTEMS:  
A CASE STUDY OF CHINESE  
ORGANIZATION**

TONG ZHENG

DBA

2012

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## Abstract

Management Control Systems (MCS) have been intensively studied in organizational research in the past five decades. Most of existing studies, however, dominantly focus on the traditional control role of MCS. Recently, adequate attentions have been paid to the role MCS for innovation. By recognizing the importance of both control and innovative role of MCS, the MCS researchers have argued that the control and innovative roles of MCS are incompatible with each other. Dynamic tensions exist between them, and how to balance the dynamic tensions of these two contradict roles has emerged as an interesting topic in MCS research, especially in the context of Asian culture.

Given the growth in interest of balancing traditional control role and innovative role of MCS, this study aims to explore *‘How do managers attempt to implement and balance the traditional control and innovative roles of MCS in a Chinese organization?’* Coherent with this research question, the main objectives of this study are to discover what kinds of tensions exist between control and innovative roles; how these tensions can be balanced. In addition, influencing factors and organizational capabilities in relation to balancing different tensions are explored.

Taking social constructionism philosophical paradigm, an in-depth single case study is conducted by sampling a Chinese joint-stock commercial bank in China. Due to heavy regulations, the Chinese government imposed on banking industry, Chinese state-owned banks often over emphasize the control role. Chinese commercial banks, differently, have more freedom to introduce and implement MCS for innovation. To gain a deeper understanding of the phenomenon, a set of data, including semi-structured interviews with senior and middle level managers, observations of management meetings and secondary data including organizational internal and government reports, are collected. Template analysis is employed as the main data analysis technique with the assistant of Nvivo 8 qualitative data analysis software.

The findings reveal that the Chinese managers use a wider range of MCS frameworks, including formal accounting and performance controls, as well as strong culture and social controls. In drawing upon these sources, three levels of tensions between control and innovative roles of MCS have been emerged: 1) MCS for controlling strategy implementation VS. renewing strategy; 2) MCS for controlling risks VS. exploring new business; 3) MCS for controlling employees’ behavior VS. enabling employees’ behaviour. Moreover, by discovering external environment and internal demand factors, this research identifies certain levels of organizational capabilities that are in relation to balancing different levels of tensions, including abilities of designing and implementing suitable MCS package, appropriate organizational structure, effective communication channels and information systems, positive organizational culture and leadership.

This research presents a holistic picture of balancing the control and innovative roles in a Chinese organization in the context of banking industry. Proactively, this study provides Chinese organizations valuable information when designing their organizational MCS package as a whole. Furthermore, it offers valuable insights to the Chinese bank managers and guides them to balance the different tensions between control and innovative roles of MCS. By highlighting the cultural role in balancing the three levels of tensions, it is hoped that this research offers an alternative way to inspire Chinese banking institutions and individual managers to develop and use a suitable MCS package that can balance the dynamic tensions between the control and innovative roles of MCS.

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## **Abbreviations**

BSC: Balanced Scored Card

HR: Human Resource

IB: International Business

IT: Information Technology

LC: Law and Compliance

LOC: levers of Control

MAS: Management Accounting Systems

MCS: Management Control Systems

OC: Organizational Control

PF: Planning and Finance

PMC: Performance Management and Control

PMS: Performance Management System

RB: Retail Business

R&D: Research and Development

SB: Sub-branch

WTO: World Trade Organization

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## **Declaration**

I declare that the work contained in this thesis has not been submitted for any other award and that it is all my own work. I also confirm that this work fully acknowledges opinions, ideas and contributions from the work of others. The work was done in collaboration with a commercial bank in China.

Any ethical clearance for the research presented in this thesis has been approved. Approval has been sought and granted by the Newcastle Business School Ethics Committee on 11/04/2011.

Name: TONG ZHENG

Signature:

Date: 28 MAY 2011

# Chapter One

## Introduction

### 1.1 Introduction

This opening chapter is to provide an overview of the whole research process in answering the research question: ‘*How do managers attempt to implement and balance the traditional control and innovative roles of MCS (Management Control System) in a Chinese organization?*’ It starts with the introduction of the research background. Along with a brief literature review, the focus of the research, including research questions, aims and objectives, are then presented. Following that, the brief of the research philosophical stance and the methodology and methods adopted for data collection and analysis are provided. Finally, the outlines and the summary of each chapter are presented as an overview of the structure for this thesis.

### 1.2 Background of the Research

The term ‘management control’ was first introduced by Anthony (1965), who defined Management Control Systems (MCS) as “*the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives*” (p. 17). It was originally introduced to business management in the early 1960’s in Western countries. The main purposes of using MCS are to collect and use relevant information to evaluate organizations’ performance, as well as to control companies’ resources and employees’ behaviours (Bisbe and Otley 2004; Simons, 1995).



According to Anthony and Govindarajan (2007), MCS as an integrated mechanism can not only be used to help organizations to implement its strategies successfully, but also to motivate employees and encourage learning and innovation. So the MCS as a package has been introduced to study the different roles and uses of MCS, and also the relationships between them (Malmi and Brown, 2008; Simons, 1995).

### **1.2.1 The Traditional Control Role of MCS**

For over 20 years, the MCS has drawn significant attentions to business management and accounting researchers. The design and use of MCS have been seen as most important elements for business success (Mundy, 2010; Ferreira and Otley, 2009; Frow, Marginson and Ogden, 2005; Tuomela, 2005; Langfield-Smith, 1997). Extensive MCS studies have been conducted with the main focus of its control role in the past (Lindkvist and Llewellyn, 2003; Otley, 1999; Brownell, 1985). Traditionally, the role of MCS has been considered simply as a tool to control the organizational activities and monitor employees' behaviours by using formal financial and behaviour controls - organizations discover the issues and problems, then adjust and carry out corrections to achieve designed strategic goals (Ittner and Larcker, 1998; Simons, 1995). As MCS are mainly used to improve organizational achievements, including efficiency and productivities by exploring its control functions, its control role has been widely and well recognised (Wouters and Wilderom, 2008; Chapman, 1997; Otley, 1996).

However, focusing solely on the control role of MCS has been criticized by many researchers (Ahrens and Chapman, 2004; Chenhall, 2003; Whitley, 1999). They argued that management control is such a complex and dynamic phenomenon that it creates bias for MCS, if studies are restricted to accounting and financial information only, but ignore

behavioural, social and contextual aspects (Chenhall, 2005; Mouritsen, 1999). It is particularly difficult for managing unexpected events in control process or for uncertain environment (Simons, 1995; Otley, 1994). Accordingly, the new approach suggested and proposed by MCS researchers is to focus on new perspectives such as the innovative role of MCS for learning and innovation (Davila, 2009; Henri, 2006; Simons, 1999).

### **1.2.2 The Introduction to the Innovative Role of MCS**

With fundamental change of business mood and structure, the form and use of MCS have been changed accordingly. Influenced by the fast changing business environment both internally and externally, successful organizations are not only required to fulfil the control function of MCS, but also to be able to manage the change, facilitate learning and foster innovation in order to drive strategic renewal and organizational development (Naranjo-Gil and Hartmann, 2007; Bisbe and Otley, 2004). Reviewing the recent studies, it is clearly evidenced that the innovative role of MCS is becoming increasingly important for organizations' long-term survival (Frow, Marginson and Ogden, 2010; Herbert, 2009; Widener, 2007; Davila, 2000). The innovative role of MCS is related to broader social and moral behavioral aspects, and it emphasizes the importance of contextual factors and deal with the unexpected events and environment changes (Henri, 2006; Chenhall, 2005). From the innovative role perspective, the existing studies suggested that the new role of MCS should be more flexible and contextual oriented which in turn enables the organization to be more flexible, adaptive and innovative (Herath 2007; Chenhall, 2003; Otley, 1994).

### 1.2.3 The Interplay between Control and Innovative Roles

Examining the existing studies, many researchers either focus on the control role (Otley, 1999; Nandan, 1996; Berry, Broadbent and Otley, 1995) or the innovative role (Davila, 2009; Marginson, 2002; Kloot, 1997) *separately* in the MCS research area. Nevertheless, it has been, recently, argued that these two roles are equally important to organizational successes, as they are complementary to each other (Mundy, 2010; Kennedy and Widener, 2008; Widener, 2007). On the one hand, a certain degree of control can enable organizations to keep things on track and achieve their desired goals. On the other hand, encouraging innovations is necessary to foster learning and main organizations dynamic capability (Alvesson and Karrenman 2004; Milgrom and Roberts, 1995). By recognising the importance of both roles, the MCS scholars further identified that the control role conflicts with the innovative role of MCS (Collier 2005; Marginson, 2002; Chapman, 1998). Competing demands for control and innovation, indeed, generate tensions between the two roles of MCS (Mundy, 2010; Frow, Marginson and Ogden, 2010; Herath, 2007).

Reviewing the existing studies, however, how to effectively balance the tensions between those two roles has not been well studied. Only limited empirical evidences can actually be discovered (Mundy, 2010; Henri, 2006), especially under different cultural contexts such as Asian cultures (Tsui, 2001; Harrison and McKinnon, 1999). This research gap, indeed, encourages the author to conduct further investigation in this area by sampling a Chinese organization. The main purpose of this decisive choice is to provide a deeper understanding of the control and innovative role of MCS and offer an alternative way for MCS scholars to review how MCS, a well-developed concept based on Western culture, has been developed and implemented in the Eastern cultural context.

#### **1.2.4 The Position of this Study**

In the last few decades, many early studies in the MCS area have over-emphasised the hard elements (e.g. the financial performance) by adopting quantitative survey methods (Bisbe and Otley, 2004; Abernethy and Brownell, 1999; Dent, 1990), while the soft elements like culture and social factors have been largely ignored (less efforts have been made by the researchers). Consequently the qualitative research is encouraged in the future MCS studies (Davila, 2009; Li, *et al*, 2005; Ditillo, 2004; Kloot, 1997). The theory of MCS was only introduced to Chinese management system a short period time ago. As an evaluation tool borrowed from western countries, it is assumed that the unique Chinese national culture and the business culture (considerably different from the Western culture) will have a great impact upon the implementation of MCS in the context of Chinese management system (Tang, Gao and Du, 2006; O'Connor, Chow and Wu, 2004). Currently, there are very few studies which examined the adoption of Western MCS in Chinese organizations, and those that do exist only focus on China's state-owned enterprise (O'Connor, Chow and Wu; 2004).

Due to the special political system in China, it is well known that the big-four state-owned Chinese banks, Bank of China, China Construction Bank, Industrial and Commercial Bank of China, and Agricultural Bank of China, have dominated the Chinese banking industry market in China (China Economic Times, 2011). The Chinese government has imposed heavy regulations on these big-four banks. Consequently, the control role of MCS in these banks is crucial. Although, the importance of innovation has been recently emphasized, limited innovations are occurred in state-owned banks in China. Notably, Chinese joint-commercial banks, counted 28% total bank market shares (China Banking Statistics, 2010), have grown rapidly. Comparing the big-four state-owned banks, although they are still

under government control, the management in joint-commercial banks are less centralized and regulated. Innovations in these banks have been highly promoted. Considering the nature of this research topic (examining both the control and innovative roles), choosing joint-commercial banks in China enables the researcher to collect valid data to examine both control and innovative practices in MCS rather than the dominate control role in state-owned banks in China.

In addition, most of the existing MCS studies have been conducted only from a single managerial level (Mundy, 2010; Naranjo-Gil and Hartmann, 2007; Marginson, 2002; Simons, 1994). The researchers either only focus on uses of MCS in relation to organizational strategic control from senior level of management, or the employees' behaviour management from middle level managers' perspective. Fewer studies consider links between the uses of MCS on strategy and employees' behaviour from both senior and middle management levels (Frow, Marginson and Ogden, 2010; Chenhall, 2005). To fill this gap, this research attempts to investigate the tensions between different roles of MCS (control vs. innovative) which will unavoidably involve both senior and middle level managers, because these tensions do not only exist in strategic level but also at the middle and lower managerial levels.

Another research gap is found is that the existing literature has not fully explored what the influencing factors are and how they affect the balance of the tensions between control and innovative roles of MCS. This study aims to discover the relevant factors in the context of Chinese organizations. Expectedly, this research contributes to both theoretical development and practices on how to balance the tensions between the control (the needs for directing and controlling organizational events and employees' behaviours) and

innovative (the needs for more flexible, interactive forms of MCS for learning and innovation) roles of MCS.

### **1.3 Research Question and Objectives**

As discussed above, to contribute to the existing theories and practices in relation to MCS studies, the future research should be conducted by considering different cultural contexts, such as Chinese culture. Reviewing the existing studies, it also shows the lack of empirical evidence of how to balance the tensions between competing roles of MCS, namely the control role and innovative role. Therefore this DBA thesis aims to explore the managers' understanding and experiences of using MCS and how they balance these tensions in a Chinese organization. The primary research question to be addressed in this research is:

***How do managers attempt to implement and balance the traditional and innovative roles of MCS in a Chinese organization?***

Coherent with the main research question, the research aims are set to answer the following questions:

1. How is the concept of MCS understood from the managers' accounts in the context of the Chinese bank organization?
2. How do Chinese managers interpret the control and innovative roles of MCS from their practical experiences?
3. From the Chinese managers' perspective, what are the tensions between control and innovative roles? And how do they manage to balance the tensions?

4. What are the influencing factors in balancing the tensions between control and innovative roles of MCS? What organizational capabilities facilitate the bank to balance these tensions effectively?

To achieve the above research aims, the research objectives of this study are summarized as bellows:

1. To explore managers' understanding of MCS in the context of Chinese bank organization.
2. To explore how the different roles of MCS are currently being implemented by the managers within the Chinese organizations.
3. To examine the interplay between the traditional and innovative roles of MCS, especially identify what tensions exist between them and these tensions are balanced
4. To reveal influencing factors and organizational capabilities in relation to balancing the tensions between control and innovative roles of MCS.
5. To contribute to management practices and existing MCS literature by providing different insights in the context of Chinese banking institutions.

#### **1.4 Research Methodology**

Given the nature of this research, the social constructionism philosophical stance underlying the interpretivism theoretical perspective has been chosen for this inductive research. According to Crotty (1998), the reality is constructed in the social process, and it is interpreted by the different individuals and reflects the different culture values. In other words, meanings are social constructs (Bryman and Bell, 2007). This research aims to

explore the managerial practices of MCS in the context of a Chinese organization. The author is interested in exploring the Chinese managers' understandings of the Western management concepts (MCS was first introduced in Western countries by Western researchers) by listening to their voices. Moreover, by adopting the social constructionism philosophy, the author believes that Chinese managers interpret the Western management concepts and practices wearing their own cultural lens (Denzin and Lincoln, 2003).

Drawing upon the social constructionism philosophical stance, a single in-depth case study, from a qualitative perspective, is employed for this DBA thesis. This is mainly because the MCS study is highly contextualised due to the unique characteristics of Chinese culture (Yin, 2003). This single, very in-depth case study enables the author to gain rich insights and have deep understanding of the complex phenomenon investigated; especially as it involves the operational process (Otley, 1999; Ahrens and Dent, 1998). Within this in-depth single case study, three sources, archive data, semi-structured interviews and observations, are employed as the data collection methods. The main primary data is collected through 15 semi-structured interviews with the senior and middle level managers from the provincial branch and sub-branches in the case organization in China. All the participants are the managers who experienced in using MCS. The interviewed senior and middle managers are from different departments, including PF, Audit, LC, HR, IT, RB and IB departments. As the complementary data, the secondary data, such as the organization's annual reports and balance scored cards are used. Alongside these two sources, two participant observations were conducted as well. For the data analysis, the template analysis (King, 2004) with the assistance of Nvivo 8 qualitative analysis software is used to analyze the rich interview data. The key themes discovered from the interview data were compared to the secondary data. In addition, the notes made from the two participant observations were analysed by connecting the findings from the interviews, especially in



relation to the communication. In the last chapter, by using methodology reflexivity approach, the quality of this research was evaluated. The evaluation framework of trustworthiness (Lincoln and Guba, 1985) and relevance proposed by Hammersley (1992) are employed.

### **1.5 Research Contribution**

This research aims to make contributions to practice which can benefit the business and practitioners; it provides managers with deep insights of how Chinese managers understand and use MCS as a package and how they attempt to balance the tensions between different roles of MCS from a practical perspective. And identified controllable factors in balancing control and innovative roles of MCS enable organizations to develop their capabilities of balancing the tensions. A practical framework is derived from my findings which can be used to provide a comprehensive understanding of MCS package and different roles of MCS and guide managers and organizations to balance the tensions and achieve organization effectiveness.

Furthermore this research also makes efforts to make contributions to existing knowledge; firstly it extends the understanding of MCS under Asian culture context which extends the western-based theories in MCS. It also provides new insights of how culture impacts the different roles of MCS and the balance of the tensions. This research also clarifies and illustrates the dynamic relationships between control and innovative roles of MCS. In addition, this research presents the whole pattern of tensions between different roles of MCS and the links among the different levels' tensions. This research has explored and summarized the influencing factors in balancing the tensions between control and

innovative roles of MCS. The controllable factors can guide organization to develop their capabilities of balancing the multi-level tensions.

## **1.6 Structure of the Thesis**

This thesis is organised into six chapters:

**In Chapter one**, the overview of the whole thesis has been presented. The current research trends in terms of MCS are introduced, followed by an examination of the MCS studies in the context of Chinese organizations make up the introduction section. This is followed by the introduction of the research background and the key themes of existing literature are briefly reviewed. After presenting the research questions and objectives, the research methodology and methods are highlighted, followed by the outline of the thesis structure.

**Chapter two** critically reviews the existing literature in relation to MCS. It begins with the main concepts of management control and MCS. Then the relevant theories and frameworks are discussed, followed by an exploration of the different roles, especially the traditional control role and innovative role of MCS. After this, the tensions between the traditional control role and the innovative role, and the influencing factors of how to balance the tensions are outlined. Finally, the research gaps and values have been identified at the end of this chapter. The main purpose of this chapter is to build upon the theoretical foundation and practical evidences for this thesis.

**Chapter three** mainly focuses on the design of research, including the choice of the philosophical stance, methodology and methods for data collection and analysis. The justification of why the single case study has been chosen for this research is explained.

Following the explanation of the researcher's philosophic stance (social constructionism), the data collection and analysis process are described in detail. Finally, the ethical issues and the limitations of the research methodology are discussed and presented at the end of this chapter.

**Chapter four** provides background information of banking industry in China, the application of MCS in Chinese banking industry, and the profile of the case study organization. This chapter as background chapter highlights the cultural and contextual impact on the MCS application in Chinese banking industry and case organization. It offers whole picture of MCS application in Chinese banking industry for facilitating the data analysis and discussion in the next chapter.

As the findings and analysis section, **Chapter five** presents the outcomes of the researched case, the discussion and analysis around the four developed key themes (based on the initial structured template) are presented. Alongside this, the linkages between the findings of this research and the existing literature in relation to the tensions between the traditional control role and innovative role of MCS are explored explicitly.

Finally, **Chapter six** is organised into four main sections. First, it summarises the conclusions of this study based on the findings discovered in the Chapter Four. Then the practical implications and theoretical contributions of this research are presented. Through epistemological reflexivity and methodological reflexivity, the quality of this qualitative research is evaluated in the next stage. To complete this research journey, the researcher's personal and professional development are explored (due to the nature of the practical emphasis by DBA degree), and followed by the limitations and recommendations for the future research at the end of this chapter.

## **1.7 Chapter Summary**

This introductory chapter has provided the overview of this thesis. It explained the focus and the scope of the research, and clarified how the research questions and objectives have been developed by exploring the research background. Also, this chapter has outlined how the research methodology and methods have been designed and conducted, together with the structure of the whole thesis. The next chapter will critically examine the relevant key themes, frameworks and theories in relation to MSC in detail.

## **Chapter Two**

# **Literature Review**

### **2.1 Introduction**

Since the MCS concept was introduced by Anthony in 1965, it has drawn more and more attention in management accounting studies, and its significant importance has been widely acknowledged by both academic researchers and practitioners (Anthony and Govindarajan, 2007; Merchant and Van der Stede, 2007; Chenhall, 2005; Simons, 1995 and 2000). It has been noticed that the concept of MCS and its applications have been dramatically developed and extended during last two decades. One part of the focus has shifted from the traditional control view of MCS to a new innovative perspective (Davila, Foster and Oyon, 2009; Berry *et al.*, 2009; Kloot, 1997; Simons, 1995). Although some researchers have argued that it is necessary to investigate both control and innovative roles of MCS, as well as the contradictions and balance between the two in recent years, limited empirical evidences can be found (Frow, Marginson and Ogden 2010; Mundy, 2010; Sprinkle, Williamson and Upton, 2008), and therefore more empirical studies have been encouraged to conduct and investigate this phenomenon.

To be able to carry out this investigation and answer the research questions and objectives outlined in Chapter 1, the theoretical foundation must be built upon by reviewing the existing literature. Therefore, the purpose of this chapter is to review all the relevant literature including the conceptual and empirical studies of MCS in order to build a theoretical foundation for this research and provide the relevant evidences for analysing

and discussing the data. This chapter starts with an introduction of the nature of control; the definitions, components, purposes and uses of management control and MCS, followed by a review of the main theoretical underpinnings and frameworks of MCS to address its different roles. This is followed by a discussion of the tensions between different roles of MCS, the relevant theories and practical evidences of balancing the tensions, and finally with a discussion of the factors influencing the balance of tensions.

## **2.2 Management Control**

Management can be defined in so many ways, but most definitions include the process of making plans, allocating resources and directing activities to achieve organization's objectives (Merchant and Van der Stede, 2007; Dubrin, 2000). DuBrin (2000, p. 3) defined management as *"the process of using organization resources to achieve organizational objectives through the functions of planning, organizing and staffing, leading, and controlling"*, and Merchant and Van der Stede (2007) described management as a process of objective setting, strategy formulation, and management control. Therefore, control is considered as a necessary element in the process of management and one of the most crucial functions in overall organization's activities. Bonner, Ruekert and Walker (2002) and Dent (1991) argued that ineffective and inadequate control can be harmful which can lead to defective products, unsatisfied employees and customers; even worse poor control can cause huge loss, bad performance or even organizational failure. On the contrary, effective and appropriate control can improve efficiency, effectiveness, support learning and nurture innovation (Davila, 2009; Simons, 2000); thus, the concept of control has attracted increasing attention in the field of business management.

### **2.2.1 Nature of Control**

The term ‘control’ is defined variously in literature, but generally it has been perceived as the power of dominating and commanding, the process of monitoring and governing, and the authority of directing and leading; a way of restraint and limit, a means of regulation and rule, a standard of comparison for checking and correcting (Collier, 2005; Merchant, 1998). Chua, Lowe and Puxty, (1989) summarized three distinct meanings of control: 1) as a tool to regulate based on cybernetic meaning; 2) as a means of dominating people through sociologic and political power; 3) as a process of management control. It appears that all the natural control meanings are related to the behaviour of commanding, directing and regulating. Control has been used for different purposes and in different subjects such as science, sociology and psychology, and business management. The word “*control*” appears frequently in management literature; as Anthony, Dearden and Bedford (1989, p. 5) described:

*“Control is the process of guiding a set of variables to attain a preconceived goal or objective. It is a broad concept applicable to people, things, situations and organizations. In organizations, it includes various planning and controlling processes.”*

So it is often regarded as a complex process and comprehensive function rather than the simple meaning of control in business management (Merchant and Otley, 2007).

### **2.2.2 Definition of Management Control**

When applied to business management, control is usually associated with organizational purposes, resources, activities and behaviour, and it is considered as a crucial function of organizations and managers (Herath, 2007, Merchant and Otley, 2007). The term

*'management control'* has been used very broadly and loosely in the accounting and management literature (Merchant and Otley, 2007; Chenhall, 2003). It has been viewed in many different perspectives, and it may mean different things to different people, so the most important thing is to define it and set clear boundaries.

Management control has been defined in various ways too; however they all include the process of utilizing resource, and influencing individual or collective action towards organizational objectives (Merchant and Van der Stede, 2007; Spekle, 2001; Langfield-Smith, 1997). Initially, control is usually linked with "*Command and control*" which means "*keeping things on track*" (Merchant, 1985, p. 1) and regulating organizational activities by designed implication and output (Mills, 1983), which is recognized as an administrative process. In this process, "*managers make sure that resources are obtained and used effectively and efficiently towards the achievement of objectives*" Anthony (1965, p. 17). Anthony and Dearden (1980) maintained this view that management control is the process used to ensure organizations' strategies are carried out effectively and efficiently by managers. Garrison and Noreen (2000) suggested a similar definition of management control; it is used to make sure all the parts of an organization functions work according to organizational plans, objectives, and policies.

Some researchers narrowed management control to be based only on employees' behaviour. Merchant and Van der Stede (2007) defined management control as a tool to deal with employee's behaviour. Anthony and Govindarajan (2004) described control as a process used by managers to influence organizational members to execute organizational strategy. Herath (2007) stated management control means to use organizational procedures and norms to influence participants' mind and behavior in order to achieve organizational

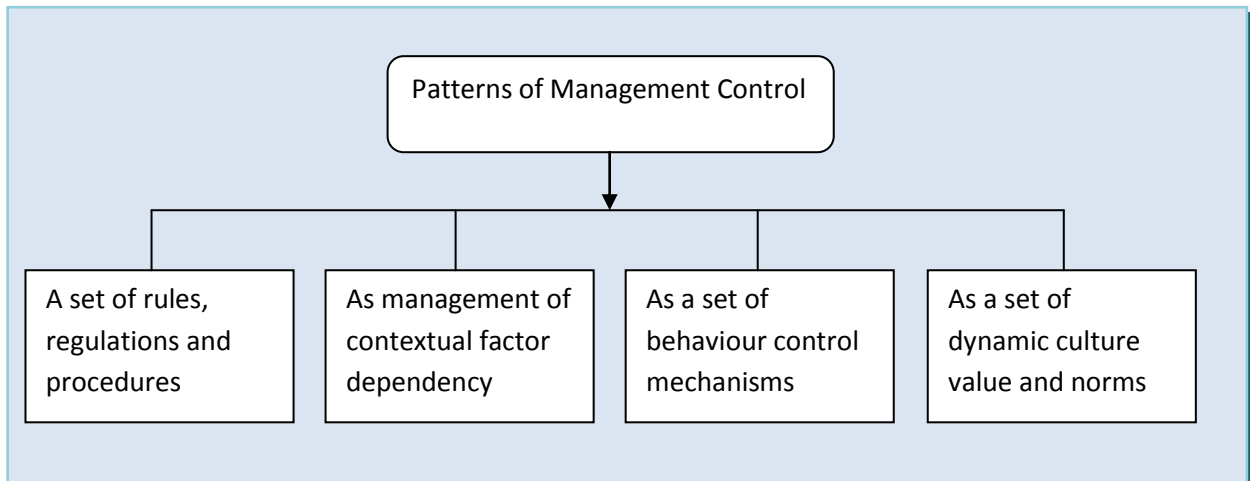


objectives. All of these definitions review management control as being associated with people's thinking and mind-set, and also their behavior and action.

Berry, Broadbent and Otley (1995) described management control from a different view: according to them, it includes both internal and external environment control as well as operating activities and employees' behavior. They also stated that control exercises are goal-oriented which are used to utilise organizational resources efficiently and effectively to pursue organizational goals through influencing behaviour and organising activities according to environmental change and organizational needs. Management control plays an important role in the process of ensuring the organizational strategies are implemented or modified to match the environmental demands in order to enable it to achieve its purposes (Merchant, 1985; Otley and Berry, 1980), and the match between the environmental demands and the organization's capabilities is crucial (Lowe and Puxty, 1989). So management control has been seen as organization's capability to cope with environmental changes.

Anthony (1965) described two types of management control - control on environment and control over operating activities and process. Ansari (1977) identified two kinds of elements in management control, one is information network and another is social relationships including organizational structure and leadership. And Ouchi (1979) developed this notion to three parts: information for decision making; organizational bureaucracy including organizational rules and regulations; and informal social mechanisms and organizational culture. Anthony and Govindarajan (2007) included even more elements in their definition of management control, including organizational planning, coordination of organizational activities and parts, information communication, information evaluation, decisions and actions, and influence on people's behaviour.

**Figure 2.1 Patterns of Management Control**



Source: Adapted from Herath (2007)

Herath (2007, p. 910) summarized the pattern of management control in organizational as consisting of four categories, which are illustrated in Figure 2.1.

- Management control as a set of rules, practices and procedures, which limit the variation of participant behaviour, and as a feedback process, which guides organizational participant actions towards the attainment of organizational goals and objectives;
- Management control as the management of contextual factor dependency;
- Management control as a set of behavioural control mechanisms; and
- Management control as a set of cultural values and norms that involves flexibility, group working and commitment.

So management control embraces organizational rules and procedure, behaviour mechanism, contextual factors and cultural value and norms, and these four types of management controls are regarded as uttermost components of core control package. Each type of mechanism under different types of management control is different depending on the different nature of control systems (Herath, 2007; Otley, Berry and Broadbent, 1996).

### 2.2.3 Purposes of Management Control

According to the definitions of management control (Langfield-Smith, 1997; Simons, 1995; Merchant, 1985; Anthony, 1965), the main purpose of management control is to ensure goal achievement. Goal achievement is essential for organizational success and positive growth, and it does not only include organizational goals, but also other forms of goals. Robson and Cooper (1989) described how management control is regarded as management practice and used to ensure individuals', organizations' and societies' goals are achieved, so management control is related to the whole organizational goals, shareholders' goals, units' goals, managers' goals and employees' goals. Therefore, "*management control facilitates the goal congruence between the organization and people within it.*" (Robert and Priscilla, 2002, p. 222).

Management control is also perceived as one of the basic functions of organizations which is used to influence the people in the organization and ensure it is consistent with organizational strategy in order to increase goal congruence and achieve organizational objectives (Herath, 2007; Merchant, 1985; Flamholtz, 1983; Otley and Berry, 1980). Anderson and Oliver (1987) considered management control as a set of processes aimed at supervising, leading, appraising and rewarding its employees, and that management control practices influence people's behaviour indirectly by targeting their minds through emotions, beliefs and social values and norms (Alvesson and Karreman, 2004). So management control focuses on workers' behavior and mind, and it is designed to specify, monitor and evaluate individual and collective actions (Alvesson and Karreman, 2004; Spekle, 2001; Langfield-smith, 1997). Anthony, Dearden and Bedford (1989) clarified the nature of management control as a tool used by managers to interact with others, which is a people

oriented process. In this process, managers are the focal point and their dominant job is to apply and exercise control (Herath, 2007; Tengblad, 2001; Mintzberg, 1989).

Moreover, management control is also used to compare the designed plan with actual performance, identify the problems and carry out corrective actions (Herath, 2007), so it can be used for organizational learning and adapting in order to reduce the performance gap. Management control is used to encourage behaviours and assist managers in pursuing goal achievement, at the same time enabling managers to enhance organizational capabilities and exploit sources of competitiveness (Bouquin, 1997). So management control is not only used for financial targets and predictable goal achievement, but also for innovation and strategic adaption (Frow, Marginson and Ogden, 2010). Overall, management control is designed and used to improve organizational performance and achieve overall organizational effectiveness (Otley and Berry, 1980).

#### **2.2.4 Process of Management Control**

Anthony and Govindarajan (2007, p. 4) described *“the management control process is the process by which managers at all levels ensure that the people they supervise implement their intended strategies”*. They also identified that the control process contains the detectors, assessors, effectors and a communication system. Four necessary steps have been identified in the control process, which include setting up desired results, plans and objectives; establishing result predictors and measuring the process; predicting the result of control actions; and reducing the deviations from objectives (Collier 2005; Stoner and Wankei, 1986). Anthony (1988) explained the control process in detail: control may happen at an early stage to make plans and strategies and help establish the rules and regulations. And for the middle stage, control helps monitor the process and triggers the

communication to search for alternative solutions. Control happens at the final stage too, to reduce variation and performance gap; deviations from pre-set goals are usually regarded as negative events. Control aims to keep these deviations to a minimum level in the middle stage and will correct the deviations and bring back the organization to its pre-set path at the final stage of control process.

Davila, Foster and Oyon (2009) argued that this top-down control process is only for implementing strategy and goal achievement, it does not support the decision making and organizational creativity and innovation, and that the organization should structure and facilitate the control process to encourage learning and innovation. Hope and Fraser (2003) suggested the organization may demand a flexible control process to be able to cope with uncertain and ambiguous conditions and also manage creativity; this may come from the top management and also from the rest of organization (Davila and Foster, 2007). And the horizontal and bottom-up control process are suggested for facilitating the cooperation, learning and formulating strategy (Kennedy and Widener, 2008; Dechow and Mouritsen, 2005).

Researchers suggest studying management control and MCS not only from a single process, but from multiple directions and organizational levels (Batac and Carassus; 2009; Ferreira and Otley, 2006; Schwaninger, 2001). Strategic management occurs at multiple organizational levels, both at senior levels and below senior management levels (Schwaninger, 2001). Ferreira and Otley (2006) also acknowledged the need to study how control mechanisms are used and transmitted at different levels in an organization. Many studies did not discuss whether or how control systems operate at different organizational levels; and it is impossible to assess organizational control without understanding the critical communication flows and information transfer (O'Grady, Rouse and Gunn, 2010).

The communication flows and information transfer from both directions are crucial; the top-down communication is needed to inform the strategy and plans, and the bottom-up information is also required to report actual results and problems of performance, so appropriate communication must be encouraged in both management levels (Batac and Carassus, 2009; Henri, 2006). It should also consider the multiple organizational levels and channels for communication and information transfer to gain insights into the operation of control across different organizational levels, and specify how different control systems communicate with each other to coordinate, balance influence and operate as a cohesive whole (O'Grady, Rouse and Gunn, 2010).

### **2.2.5 Forms of Management Control**

Management control has been categorized into many different groups by different researchers: Administrative and Social controls (Hopwood, 1976); Output and Behaviour controls (Ouchi, 1977); Market, Bureaucracy and Clan controls (Ouchi, 1979); Result, Action and Personnel controls (Merchant, 1985); Formal and Informal controls (Anthony, Dearden and Bedford, 1989); Hard and Soft controls (Burlaud, 1990); Diagnostic and Interactive controls (Simons, 1995); Bureaucratic and Organic controls (Chenhall, 2003); Socio-ideological and Technocratic controls (Alvesson and Kärreman, 2004). These forms of management controls are distinguished by different control objectives, different control functions, or different existing shapes.

Hopwood (1976) divided controls into two categories, administrative and social controls. Administrative control emphasizes standard operating procedures and rules, and social control is similar to the concept of clan control, which is used to influence people's behaviour by formal agreement, hierarchy and governance structure, plus shared value and

norms. It supports socialization and interaction. Ouchi (1977) also categorized controls into another three different kinds: input, output and behaviour controls. Input control is to control by designing the plans and objectives, output control is to control through setting the specific expected outcome and result, and behaviour control is to control employees' behaviour by monitoring activities. Ouchi (1979) distinguished three different types of controls: market, bureaucracy and clan controls. Market pricing mechanism is about setting market price for each task; bureaucracy control includes accounting controls, regulations and rules, and clan control does not rely on accounting measures, information or formal systems; it is associated with shared beliefs and values, social agreement and organizational culture.

Merchant (1985) proposed another way to categorize management controls into three groups: result, action and personnel controls. Result control is the same as output control, which focuses on desired result and is used to hold individuals or groups accountable for their outcome; it is usually tied to extrinsic reward systems. Action control is the same as behaviour control, which is used to ensure that individuals act in the interests of the organization. The action control includes behavioural constraints, pre-action review and action accountability. And personnel controls (also called clan and cultural control) include employees' recruitment, training, job design, and promoting. It also aims to induce employee self-control through shared norms and values (Merchant, 1998). Anthony, Dearden and Bedford (1989) simply classified management controls into two groups: formal and informal controls. Formal controls include organizational rules and regulations, standard operating procedures and other accounting systems like budgeting systems, BSC. Formal controls are the more visible, objective components of the control systems. Compared with formal controls, informal controls are not consciously designed, which

usually include the unwritten policies, explicit, verifiable measures like leadership and organizational culture.

Simons (1995) distinguished two types of controls named diagnostic and interactive controls; the difference between them is how to use information rather than the content of information. He defined diagnostic control systems as formal information systems used to monitor the process and evaluate the result from preset standards and goals, and interactive control systems as formal information systems used for decision making through communication between managers and their subordinates. So, the same accounting information can be used in a diagnostic or interactive manner to control an organization. Burlaud (1990) categorised two kinds of controls: “hard” and “soft” controls. Hard control focuses on administrative control and soft control focuses on behaviours, and the culture and value connect and integrate these two types of control.

Alvesson and Karreman (2004) defined two types of controls in management control, socio-ideological control and technocratic control. Socio-ideological control can be used to control people’s mind-set by influencing and persuading them to adapt to certain norms and values and discourage others through relations, identity information and ideology; and technocratic control focuses on control over people’s behaviour and measurable output following plans and arrangements (Ditillo, 2004). Chenhall (2005) classified controls from mechanistic to organic control. Mechanistic controls rely on formal rules, standardized routine and procedures to meet the control need of organization. And organic controls are more flexible and responsive with fewer rules and procedures which are associated with flexibility and learning.



**Table 2.1: Summary of Different Categories of Management Controls**

	<b>Form</b>	<b>Process</b>	<b>Focus</b>	<b>Function</b>
Bur laud (1990)	hard and soft controls		System-based	
Hopwood (1976)	administrative and social controls			
Ouchi (1977)		input, output and behaviour controls		
Ouchi (1979)			market, bureaucracy and clan controls	
Mechant (1985)			result, action and personnel controls	
Anthony <i>et al.</i> , (1989)	formal and informal controls			
Simons (1995)				diagnostic and interactive controls
Alvesson and Karreman, (2004)	technocratic and socio-ideological controls			
Chenhall, (2005)	mechanistic and organic controls			

According to the table, most of the researchers categorized the management controls by different forms, and they can be substituted for each other. Only Ouchi (1997) classified the management control by control process. Mechant's (1985) and Ouchi's (1979) classifications focused on the different important areas like market, result, action and people. And Simons (1995) took another perspective and classified management control into diagnostic and interactive uses for different purposes. So management control can be seen as combination of formal or informal, hard and soft controls; it can focus on output or result, action or behavior, culture or socialization and it can be used diagnostically or interactively. Overall, management control includes all control mechanisms related to organizational strategic planning and follow-up, and it is not limited to accounting, system-based controls, it also includes non-accounting, social and culture forms of controls, so it is open to a broader perspective (Collier, 2005).

### 2.3 Management Control Systems (MCS)

MCS are usually seen as a set of management control mechanisms which carry out management control functions. A number of definitions of MCS have been developed over the years, the focus has been extended from narrow understanding of MCS which only includes formal control and financial control information relating to markets, customers, competitors used by managers to help implement strategy and achieve organizational goals (Simons, 1995), to a broad understanding of MCS, which does not only include accounting control, but also non-financial control systems and informal control systems such as personnel, culture and social controls to assist decision making and foster organizational learning (Chenhall, 2003).

According to the different categories of management control, MCS have been defined and understood in various ways as well. The difference between management control and MCS is described as:

*“Those systems, rules, practices, values and other activities management put in place in order to direct employee behaviour should be called management control, if these are complete systems, as opposed to a simple rule, then they should be called MCSs.”*

(Malmi and Brown, 2008, p. 290)

So, management control is related to the simple and separate control system which is there to fulfil the different purposes of management, while MCS are complete systems designed to achieve the same desired end. They could be a single control system or a set of management controls and control systems (Merchant and Van der Stede, 2007), and they can be used at different times, different levels or for different purposes (Malmi and Brown, 2008).

The original idea of management control systems came from Anthony (1965), who defined MCS as:

*“the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives”*

(Anthony, 1965, p. 17).

Simons (1995, p.17) defined MCS as *“formal, information-based routines and procedures managers use to maintain and alter patterns in organizational activities”*. Based on these two main definitions in MCS literature, other researchers also understand MCS in the similar way. Bisbe and Otley (2004) described that MCS are a set of organizational mechanisms which are used to influence goal achievement. MCS have been seen as formal and informal information-based routines, procedures, processes and practices that can be used to help managers effectively and efficiently achieve desired organizational goals (Anthony and Govindarajan, 2001; Otley, 1999; Langfield-Smith, 1997).

At the beginning, MCS was excluded in the strategy formulation process; it only focuses on strategy implementation (Goold and Quinn, 1993). And it has been argued that, except for strategy implementation, MCS are also perceived as passive tools for assisting managers in decision making by providing information in the feedback and feed forward processes (Chenhall, 2005; Tekavcic, Peljhan and Sevic, 2005). So MCS do not only include the operational process (Merchant and Otley, 2007; Mintzberg, 1987), but also the strategic planning process (Langfield-Smith, 2007; Otley, 1999). MCS are therefore concerned with planning, the actions taken to implement plans, the monitoring of both these actions and the plans and any necessary modification to the plans. These definitions encompass both the strategic process and the operational process of implementing these strategic plans; therefore include all three levels of Anthony’s classification: strategic formulation, strategic implementation and management control (Chenhall, 2003).

### **2.3.1 Uses of MCS**

It has been revealed that different kinds of MCS are used for different purposes for achieving organizational effectiveness and performance. According to the definitions of MCS summarised above, MCS refer to a set of different procedures and processes which managers use to ensure the organizational resources are deployed efficiently and effectively to achieve organizational goals and objectives (Otley and Berry, 1994; Anthony, 1965). Traditional understanding of MCS has come from adopting control mechanisms by senior management to control the strategy implementation through observing and monitoring the process and behaviour, and checking the results (Merchant, 1985), so it mainly used for controlling strategy implementation and employees' behaviour.

MCS provide the information for communicating the goals of an organization and monitoring the process to seek for new opportunities for emerging development (Robert and Priscilla, 2002). MCS are also used to facilitate the communication between managers and subordinates at different levels in order to enable all the managers to bring all the information in the organization to challenge the organizational strategies and plans. So MCS are also used for encouraging learning and innovation (Simons, 1995). Furthermore, MCS also help an organization gather information to ensure it adapts to changes in its substantive environment. These systems are not only for goal achievement, but also for guiding and shaping organizations to fit changing environments (Berry, Broadbent and Otley, 1995). Thus the purposes of MCS are not only for controlling and evaluating behaviour, but also for decision making and innovating (Merchant and Otley, 2007).

MCS are also designed to influence and direct human endeavour (Langfield –Smith, 1997; Flamholtz, Das and Tsui, 1985), to control process and direct employees' behaviour and

activities (Malmi and Brown, 2008), to motivate employees to carry out activities which can further an organization's goals (Merchant, 1985) and to define individuals' decision space in order to affect their behaviour (Robert and Priscilla, 2002). MCS play an important part in controlling and directing employees' behaviour and make sure it is consistent with organizational goals by influencing their minds, beliefs and values and evaluating their actions (Alvesson and Karreman, 2004). And in order to better achieve organizational goals, one of the expected outcomes of MCS is to ensure employees' job satisfaction and personal development (Herath, 2007). Therefore, MCS are used to influence and direct employees' behaviour mainly through influencing their thinking, evaluating their performance and enhancing their job satisfaction.

As discussed above, MCS are used for different purposes, so need to link to multiple organizational objectives. MCS are perceived as a collection of control mechanisms; more than accounting controls, each of them perform part of control for the purposes of the organization (Kloot, 1997). And organizations do not follow simple objectives, usually they have more than one purposes, some of management control and MCS frameworks are only designed to fulfil certain purposes of organizations; actually organizations do not only pursue the goal achievement, but also strategy renewal and innovation; not only do the pursue organizational financial targets, but also individual satisfaction (Adler and Chen, 2011; Ahrens and Chapman, 2004; Simons, 1995). Some of the studies only focus on goal achievement and others only focus on innovation, but there is a need to cover all different uses of MCS (Herath, 2007; Simons, 1995; Beer, 1994).

MCS are expected to be used for maintaining stability and controllability, at the same time enabling flexibility and change; to reconcile the discrepancy between the behaviour and organizational goals and to coordinate the short-term objectives with long-term plans

(O’Grady, Rouse and Gunn, 2010; Nixon and Burns, 2005). Therefore another crucial task of MCS is to balance the tensions between different purposes and different needs of an organization. MCS can be used to coordinate the different functional departments in all managerial levels, it can help align individuals’ goals with organizational goals, and provide flexible and interactive procedures to detect potential problems in order to reduce the uncertainty and risks and drive strategy renewal (Hearth, 2007; Simons, 1995). In addition, MCS are seen as an important element of integration capabilities of balancing these different organization’s needs (Bruhl, Horch and Osann, 2010).

### **2.3.2 The Components of MCS**

Based on the different typologies of management control, management control systems encompass various types of control systems. MCS encompass both formal and informal control systems. Formal control systems attempt to control process and direct behaviours (Bisbe and Otley, 2004; Otley and Berry, 1994), such as organizational regulations and rules, accounting and financial control systems and performance management systems; while informal control systems are shared norms and values which include non-financial information, clan control, personnel, social and culture controls (Chenhall, 2003).

Kalagnanam and Lindsay (1999) found that there are three components in MCS: systems used to specify and communicate organizational plan and objectives, to monitor through performance measurements and to motivate employees to accomplish objectives, such as incentive and rewards systems. Anthony and Govindarajan (2004, p. 1) described:

*“Elements of management control systems include strategic planning; budgeting; resource allocation; performance measurement, evaluation, and reward; responsibility center allocation; and transfer pricing”.*

Herath (2007) includes even more elements in his description of MCS, such as organizational policies and procedures, organizational norm and value, social network and relationship, leadership and culture.

Chenhall (2003) clarified four distinct terms: Management accounting (MA), which refers to accounting practices such as budgeting and costing; management accounting systems (MAS), which refer to the systematic use of MA for achieving organizational goal; management control systems (MCS), which include MAS and other control systems like personnel and culture control; and organizational control (OC), which is broader and includes MA, MAS, MCS and every control systems involved in the organization activities and process (Merchant and Otley, 2007; Merchant and Van der Stede, 2007; Collier, 2005; Alvesson and Kärreman, 2004; Abernethy and Chua, 1996). Another related term to MCS is performance management systems (PMS); this has been seen as integrated package of all aspects of organizational control, including formal mechanisms and informal controls, which can be used to capture a holistic approach of management and control of organizational performance (Malmi and Brown, 2008; Chenhall, 2003).

MCS are not only associated with achieving pre-defined goals following formal and standard procedures, it also requires organizations to be informal and flexible, to innovate to achieve organizational goals and facilitate organizational change (Davila, 2009; Simons, 1995). In order to support these roles of MCS in meeting different organizational purposes and needs, it is necessary to take a broad view of MCS, rather than only focus on traditional and formal control systems (Kloot, 1997). MCS need “wider vision” to manage complex organizations (Hopwood, 1976) and need to include broad controls, that don’t only focus on accounting and financial control systems (Merchant, 1985). According to different definitions and uses of MCS, these definitions and uses encompass more than

accounting and financial control, so MCS become a broad concept, embracing a large scope of information (Chenhall, 2005).

MCS should not only focus on traditional vertically-based control systems such as budgeting, they should include wider views and more non-financial control systems like BSC to improve horizontal control (Otley, 1994; Kaplan and Norton, 1992). Simons (1999 and 1995) also suggested traditional management control systems should be embedded within a wider control framework, as a narrow view of MCS ignores the richness of issues and relationships in the wider context (Ferreira and Otley, 2009). Malmi and Brown (2008) argued that if organizations only focus on a single control system and ignore the links between different MCS within a broader control systems and context, it will lead to a one-sided view or erroneous conclusions. Collier (2005) also mentioned that MCS should embrace formal, systems-based controls and more informal, social or cultural forms of controls, because MCS should be used to fulfil all control functions of planning, decision-making, motivating, coordinating, communicating, providing feedback and integrating activities, and needs for managing uncertainty and changes, strategic renewal, learning and innovation (Dutton *et al.*, 1997; Macintosh, 1994). This broad view allows MCS to include a wide variety of mechanisms as components, and also provides organizations with different choices of MCS, so it is difficult to develop an integrated view of MCS in all organizations (Nixon and Burns, 2005).

### **2.3.3 MCS as a Package**

The concept of MCS packages has existed for more than 30 years (Otley, 1980), but there is a lack of theoretic and empirical research to support it (Malmi and Brown, 2008; Alvesson and Kärreman, 2004; Abernethy and Chua, 1996; Simons, 1995). MCS consist of



a collection of control elements and devices which are interconnected and function as a collective whole in order to achieve overall organizational control (Wilson and Chua, 1993). Otley (1980) described control systems as a package rather than an individual system, because control systems include so many elements and are designed for different purposes, so they have been used by different people, at different levels and in different functional departments and at different times. Different control elements may play multiple roles; some control elements may play the same role, so the relationship between these elements makes them operate as a whole package (Abernethy and Chua, 1996). However, our knowledge of the relationship between control elements is limited (Malmi and Brown, 2008; Brown, 2005), therefore the practical studies of examining the relationships among control elements would help understand the features and functions of MCS packages.

Abernathy and Chua (1996) recognised it is important to be consistent for control systems operating as a package to achieve similar ends, so MCS can be used as a package in terms of consistency. Ferreira and Otley (2009) made clear links between the control components in a management control and performance management framework; this provides a better understanding of MCS operating as a package and starting point of further investigation of balance, harmony, and consistency and coherence relationships between control systems. Chenhall (2003) found that MCS do not operate individually or separately; actually MCS include multiple control systems which connect with each other and work together (Otley, 1980). Other researchers also confirmed that MCS work in combination rather than individually, and all the systems in an MCS package operate as an inter-related whole package (Brown, 2005; Chenhall, 2003; Fisher, 1998).

The MCS research which only focuses on single control system disconnects the relationships between each element. Fisher (1998) argues that the links between control

systems are not well recognized; management accounting studies which only focus on the accounting-based controls ignore the impact of other types of controls. This may affect the desired outcomes, and limit the understanding of relationships between the control systems in different contexts. So it is important to gain a broader understanding of MCS packages, which will help develop better understanding of the relationships between control systems, and facilitate the development and design of MCS packages in order to control organizational activities, achieve organizational objectives and enhance organizational performance (Malmi and Brown, 2008).

**Table 2.2: MCS Package**

Culture control						
Clans		Values				Symbols
Planning		Cybernetic Controls				Reward and Compensation
Long range planning	Action planning	Budgets	Financial Measurement systems	Non Financial Measurement Systems	Hybrid Measureme nt systems	
Administrative Controls						
Governance Structure		Organization Structure				Policies and Procedures

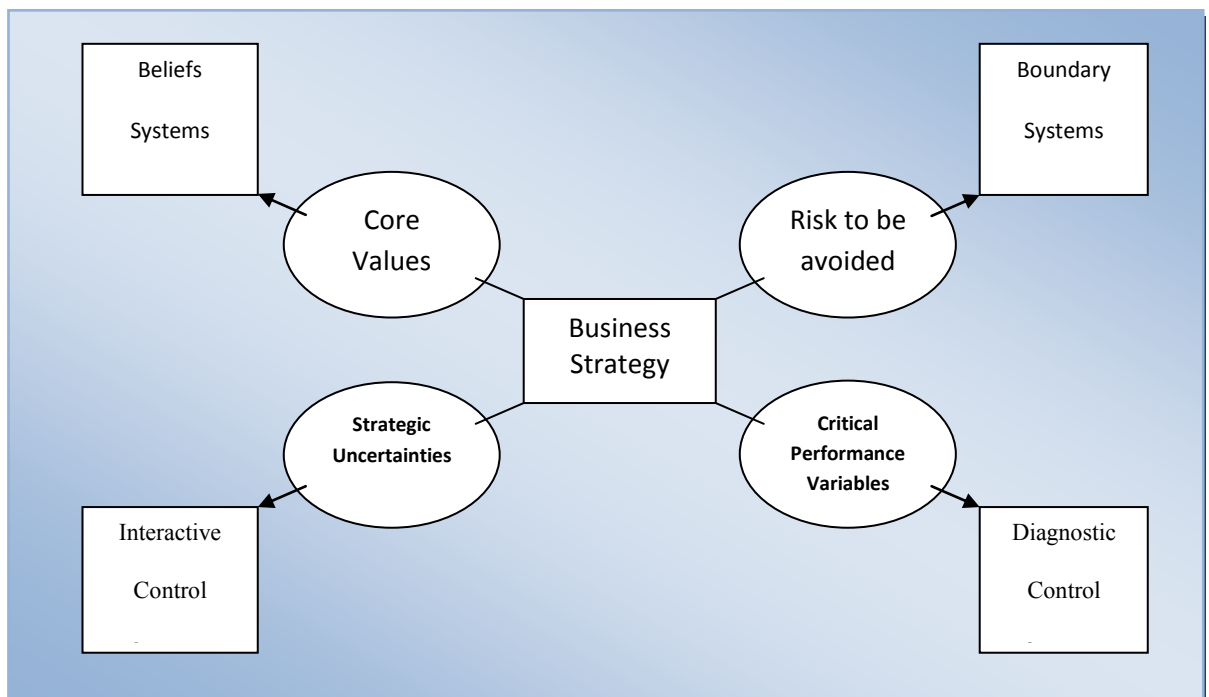
Source: Malmi and Brown (2008, p. 291)

As showed in figure 2.2, Malmi and Brown (2008) described MCS packages as a collection or set of controls and control systems which are structured around five control groups: planning, cybernetic, reward and compensation, administrative and cultural. Planning controls are used to set out the plans and goals. Cybernetic controls are used to measure performance, detect the variances and modify the behaviour or activity. Reward and compensation controls focus on motivating employees in order to increase their performance. Administrative controls direct employees' behaviour by making them

accountable for their behaviour through governance structure, organizational structure and organizational policies and procedures.

Another important framework related to the MCS package is the Levers of Control (LOC) framework. Simons' (1995 and 2000) Levers of Control framework consists of four components which are belief systems; boundary systems; diagnostic systems and interactive systems, which control the different important aspects: core values; risks to be avoided; critical performance variables and strategic uncertainties (figure 2.2).

**Figure 2.2: Levers of Control**



Source: Simons (1995, p. 34)

These four levers include:

- Belief systems are the core values, purposes of organization which are used to inspire and direct the search for new opportunities; they are commonly expressed in vision and mission statements.

- Boundary systems are used to impose important limits on the organizational opportunities search behaviour, which is motivated by belief systems;
- The diagnostic control systems are formal control systems which are used to motivate employees, monitor the process and reward goal achievement in the process of implementing and controlling intended strategy;
- Interactive systems are tools to engage the organization in the exploration of strategic uncertainties, stimulate searching and encourage organizational learning; they guide and provide the input to innovation in order to enable strategic renewal.

(Simons, 1995)

Belief systems are a set of an organization's values, purposes and directions, which are embedded into MCS in order to keep employees committed towards organizational goals and also to encourage employees to search for opportunities and solutions (Marginson, 2002; Simons, 1995). So belief systems do not only create a stable environment for employees, but also play an important role in challenging organizational standards and goals through interactive values and assumptions (Simons, 1995). Boundary systems are used to set the limitation to restrict risk-taking behaviour and prevent employees from wasting the organizational resources by setting standards and guidelines, however they also stop employees from generating new ideas and seeking continue improvements. Financial systems can be used as boundaries to protect organizations from financial risks, while non-financial systems can be used to indicate the strategic and operational boundaries (Tuomela, 2005). Strict boundary processes can also prevent employees from seeking alternative solutions and new opportunities (Sprinkle, Williamson and Upton, 2008).

Diagnostic controls are used to monitor and compare actual performance with pre-set goals, identify the unexpected deviations and carry out the corrections (Abernethy and Brownell,

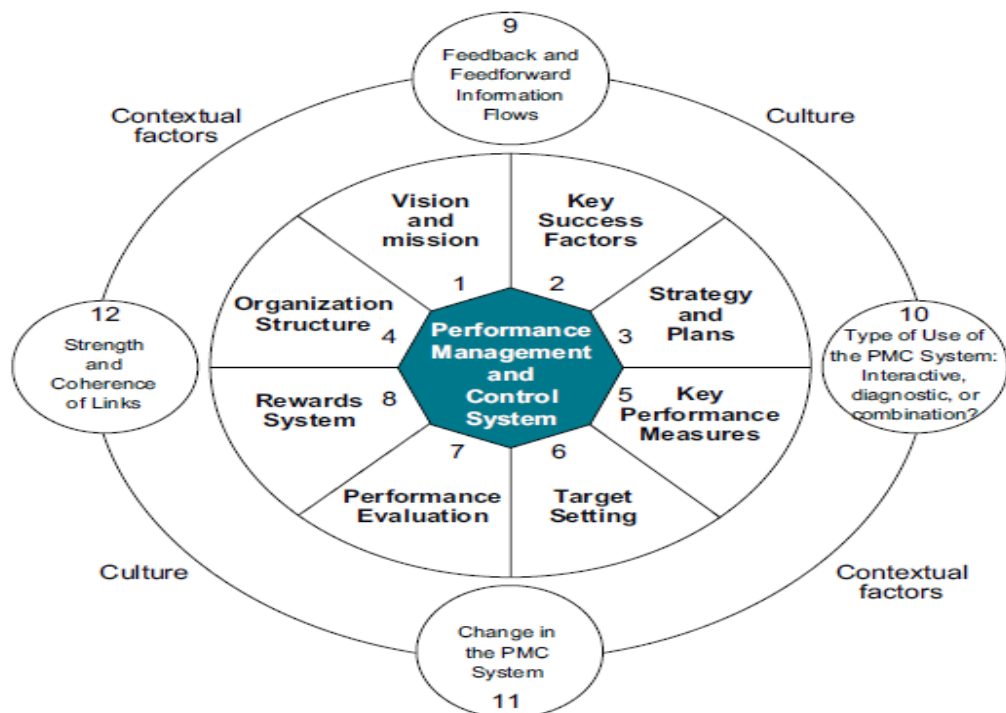
1999; Simons, 1995 and 1999). Financial data indicate the completion of targets, and non-financial measures enable managers to focus on crucial successful factors (Tuomela, 2005; Abernethy and Lillis, 2001). Diagnostic use of MCS does not only help constrain employees' behaviour, but also helps to detect the problems and motivate employees to achieve organizational objectives (Norman, 2001; Ittner and Larcker, 1998). However ineffective use of diagnostic control can lead to a lack of focus, while excessive use of diagnostic control can inhibit innovation and creativity (Henri, 2006). Interactive control encourages and facilitates two-way communication between managers and subordinates at different levels of an organization. It is used to challenge and debate underlying assumptions rather than simply resolve problems, which allows new ideas and strategies to emerge (Speklé, 2001; Abernethy and Lillis, 1995) and signals organizational priorities to stimulate strategy renewal (Naranjo-Gil and Hartmann, 2007; Bisbe, Batista and Chenhall, 2007; Bisbe and Otley, 2004). It may focus more on managing employees' relationships than the communication and dialogue used to challenge existing assumptions (Bisbe, Batista and Chenhall, 2007; Speklé, 2001; Roberts, 1990). Compared to diagnostic control, interactive control requires a significant amount of attention, so it is usually costly and time-consuming (Widener, 2007).

The LOC framework (Simons, 1995 and 2000) provides an approach which concerns MCS as a whole package: the belief, boundary, diagnostic and interactive control systems which are designed for achieving different purposes can help understand the MCS operate as a package (Ferreira and Otley, 2006). Some studies only focused on diagnostic and interactive levers (Henri, 2006; Bisbe and Otley, 2004; Abernethy and Brownell, 1999) and others focused on the entire LOC framework (Mundy, 2010; Widener, 2007; Simons, 1994). It is important to study the entire framework, because of the dynamic tensions from the interrelations between the levers (Henri, 2006; Simons, 1995). Separating the levers of

control may ignore the relationships among the four different levels and lead to disconnected, incomplete or inaccurate understanding the whole framework (Henri, 2006; Bisbe and Otley, 2004).

The performance management and control (PMC) framework (figure 2.3) (Ferreira and Otley, 2009) is extended from MCS framework (Otley, 1996), and it uses a set of 12 questions rather than 5 questions to cover all the main control components. The 12 questions cover the following areas: vision and mission; key success factors; strategy and plans; key performance measures; target setting; performance evaluation; reward systems; organization structure; information flows (both feedback and feed forward); types of use of control systems (diagnostic, interactive or combination); changes in the performance management and control system; linkages between components (including the strength and coherence of the links).

**Figure 2.3: Performance Management and Control Framework**

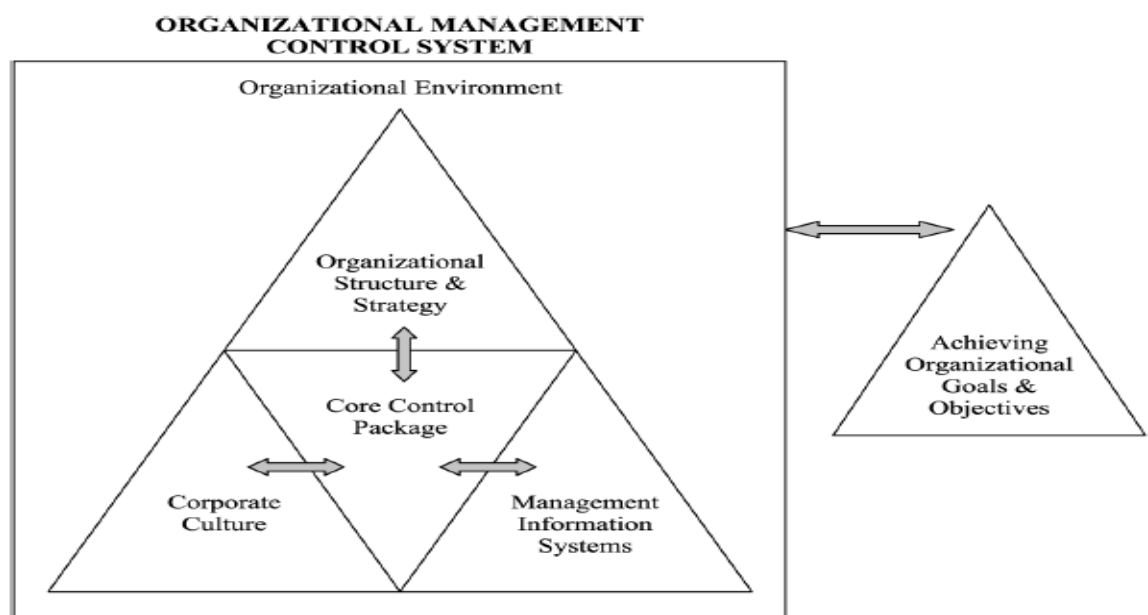


Source: Adapted from Ferreira and Otley (2009)

The PMC framework provides an integrative holistic approach of viewing organization's control mechanisms and is designed as a tool for describing the structure and explaining the operation of MCS (O'Grady, Rouse and Gunn, 2010; Ferreira and Otley, 2009). This framework provides better understanding of the use of MCS; however it is difficult to synthesize the overall assessment control due to the fragmented control components in the framework. PMC framework is useful in a stable setting, but it has only emphasized two of Simons' (1995) control systems: diagnostic and interactive controls and ignores the importance of belief and boundary systems. And this framework includes so many elements; it may not provide a generalizable and coherent description, so it may be difficult to apply (Ferreira and Otley, 2009).

Herath (2007) proposed a framework of MCS (figure 2.4) that consists of two major dimensions: (1) Management control system, and (2) Organizational goals and objectives achievement. These two dimensions interact with each other in a two-way relationship.

**Figure 2.4: Framework of Organizational MCS**



Source: Herath (2007, p. 905)

A core control package includes all the main control practices and systems of the organization. The surrounding triangles represent other components of control systems: corporate strategy (organizational goals and objectives) and structure (organizational hierarchy, rules and regulations), corporate culture (collection of values, beliefs and norms), and management information systems (formal and informal information). And all the components of MCS are linked by feedback and feedforward loops and bounded by organizational environment.

This framework provides a full picture of control systems in an organization; it clarifies the purpose of the MCS as a whole package for goal achievement, and integrates all the control components to achieve organizational goals and objectives. However it does not fully explain how the control components coordinate and interact with each other.

PMC consider the different forms and uses of MCS, and the LOC framework focuses on the integrated uses of MCS, but does not consider informal, culture and social controls, while organizational MCS framework considers informal and culture elements, but does not mention the different uses of MCS (Perez-Freije and Enkel, 2007; Herath, 2007; Simons, 1995). All the MCS package concepts and frameworks suggest considering a broad range of control systems to study MCS, including not only traditional and formal control systems, but also more informal and social control systems (Ferreira and Otley, 2009; Malmi and Brown, 2008; Herath, 2007). In order to meet all different kinds of organizations' needs and purposes and to fit all different contexts and environments, MCS must be broad and include all forms of controls to fulfil the needs for different roles and uses of MCS (Ferreira and Otley, 2006; Chenhall, 2005; Simons, 1995).

The non-specific control package has been investigated by a numbers of studies (Widener, 2007; Bruining, Bonnet and Wright, 2004). Other researchers only focus on particular



MCS, such as performance measurement systems or budgets (Henri, 2006; Abernethy and Brownell, 1999). Sandelin (2008) examined that MCS operate as a package including cultural, personnel, action and results controls in a growth firm, and found that the functionality of a MCS package relies on internal consistency and reciprocal relations between dominant and other control systems. A non-specific package of MCS can facilitate understanding of different uses of MCS (Otley, 1999; Chenhall and Langfield-Smith, 1998; Abernethy and Chua, 1996).

#### **2.3.4 Holistic View of MCS**

MCS adopted in different organizations are varied, and the relationships among control elements are complex; it is difficult to examine from the same standard, so the holistic perspective on studying MCS is recommended by many researchers (Ferreira and Otley, 2006; Otley, 1999). The MCS must be considered from a holistic and organizational perspective, because they are related to the context and environment (Otley, 1994; Lowe and Puxty, 1989). And the effectiveness of MCS depends on the interplay between the control systems and their combined effects, so it requires a holistic view of the MCS to avoid the problems caused by different specific MCS (Alvesson and Kärreman, 2004; Langfield-Smith, 1997; Fisher, 1995). In this research, MCS are seen as a package including different control systems that managers use interactively and interactively to achieve overall organizational control and innovation across different managerial levels and functions (Merchant and Otley, 2007; Chenhall, 2003; Simons, 1995).

Empirical researches tend to focus only on specific parts of MCS, rather than taking a comprehensive and integrative approach (Skærbæk and Tryggestad, 2009; Moilanen, 2008; Chong and Eggleton, 2003; Dent, 1990). This may be because of having access or time

limitations, or difficulty in generating a large amount of data. Incomplete descriptions of MCS have produced unclear, inconsistent or conflicting findings, because they only focus on partial control systems, the linkage and interdependency between different control components operating in the same organization have been ignored (Merchant and Otley, 2007; Ferreira and Otley, 2006; Covaleski *et al.*, 2003; Otley, 1999; Abernethy and Brownell, 1997). Therefore it has been argued that the MCS research should provide a broad view of the key aspects of MCS from a holistic overview (Ferreira and Otley, 2009). Chenhall and Euske (2007) investigated the holistic nature of control systems to understand how they operate across organizational levels and manage change. It has been suggested taking a holistic integrated view of studying MCS package in multiple levels in organization rather than only focusing on single or individual control system at one level (Herath, 2007; Chenhall, 2003; Simons, 1995).

## **2.4 Traditional Control Role of MCS**

A traditional view on MCS is related to controlling and constraining organizational activities and employees' behaviours through influencing and interacting with others using the rules and regulations, goals setting, evaluation and assessments processes in order to improve the efficiency, implement strategies and achieve goals (Herath, 2007; Ahrens and Chapman, 2004; Anthony, Dearden and Bedford, 1989). This traditional approach focuses on mere internal processes or actions by setting well-bounded formal rules, structural mechanisms and systemic procedures and routines (Whitley, 1999; Nandan, 1996), and it is characterized by emphasizing planning and providing specific financial measures and accounting information to keep things on a preset track according to the designed strategies and goals (Hearth, 2007; Otley, 1996). It reflects top-down planning, restricted information flow and hierarchical communication with highly detailed instructions (Wouters and

Wilderom, 2008), so it reflects hierarchical culture with bureaucracy and standardization (Henri, 2006; Ahrens and Chapman, 2004; Van der Stede, 2001).

#### **2.4.1 The Need for the Traditional Control Role of MCS**

All organizations need to have a certain degree of control to keep things on track and achieve their desired goals, so the traditional control role of MCS is necessary to fulfil this basic management function to influence participants' behaviour and ensure they will act towards the organization's goals (Merchant, 1985). Inadequate or inappropriate control can expose organizations at risk. Organizations need to have strong control to keep them on the track and avoid these risks, so risk control plays an important part in the traditional role of MCS (Mikes, 2009; Clegg, Budon and Nikolova, 2005). Otley (1994) pointed out that there is a need to control all the people's behaviour in an organization in order to produce desired outcomes. A set of controls is needed to prevent organizational participants from failing to act for the best interest of the organization and ensure they are consistent with its goals (Merchant, 1985). The literature suggests there are several reasons why organizations need traditional control: lack of direction, motivational problems, and personal limitations (Merchant, 1985).

#### **2.4.2 Role of MCS for Controlling Use**

The traditional role of the control system relies on cybernetic control (Anthony, 1965), which is mainly used to deliver efficiency by adopting formal rules and standardized operation procedures and routine. The Cybernetic model (see figure 2.5) is one of the main models in management control literature, it is also known as the feedback system (Merchant, 1985; Anthony, 1965). This model demonstrates the traditional command-and-

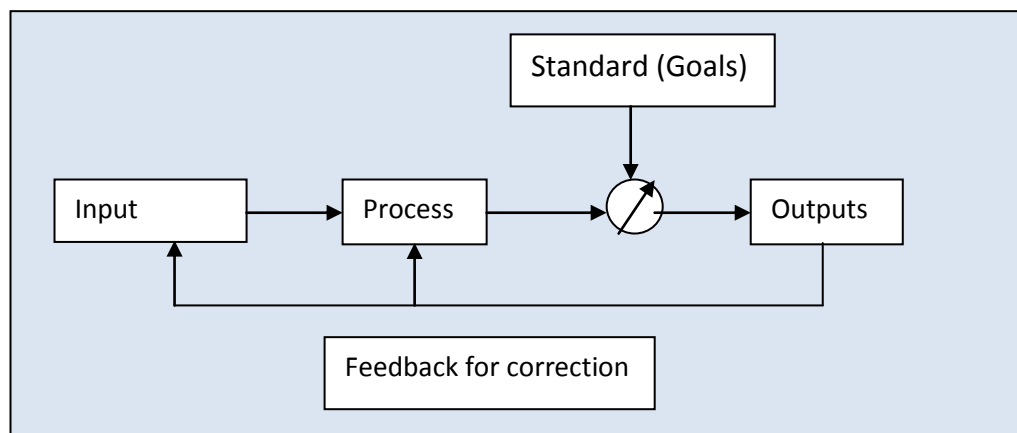
control role of MCS, which is associated with using fixed implementation routines and standardizations to reduce variation and avoid deviations to control the outcome from established guidelines for delivering efficiency. And feedback is only used for eliminating the errors and correcting the deviations to match pre-set goals (Table 2.3).

**Table 2.3 Features of Cybernetic Model**

The features of Cybernetic Model
The ability to measure the outputs of a process
The existence of predetermined standards against which actual results can be compared
The ability to correct deviations from standards

Source: Adapted from Anthony (1965)

**Figure 2.5: Cybernetic Model**



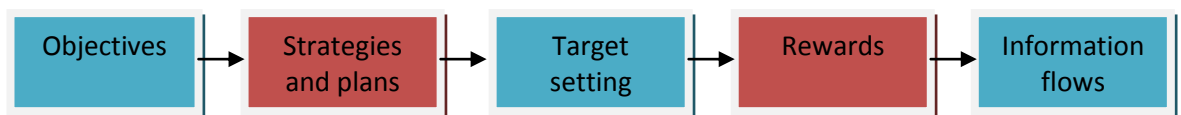
Source: Adapted from Anthony (1965)

This cybernetic model has four requirements: the objectives and goals are set; the measurement of goals is defined; the process is controlled; and feedback is used for corrections and alternative actions (Emmanuel, Otley and Merchant, 1990; Otley and Berry, 1980). It relies on detection of errors and corrections of deviations based on the planned goals and objectives; control only focuses on implementation according to the

designed goals and to help keep things on track. This model has been associated with negative effects, as these fixed routines and standardizations do not promote but actually eliminate innovation, which is associated with taking advantage of unexpected opportunities, exceptions, uncertainties, risk and the possibility of failure to generate the new ideas and turn them into action to adapt and develop (Berry, Broadbent and Otley, 1995).

Another framework also captures the traditional control role of MCS, proposed by Otley (1999). This MCS framework (figure 2.6) is based on the agency theory of management accounting and his own experience. It suggests that there are five issues needed to be considered to develop structure for management control and performance management systems. The first area is about identifying of the key organizational objectives, and the processes and methods used to assess the achievement of the objectives. The second area is related to the process of formulating and implementing strategies and plans. The third area relates to the processes of setting performance targets. The fourth area relates to the use of rewards systems to influence the achievement of performance targets. And the final area concerns the types of information flows which are required to provide adequate monitoring and support learning.

**Figure 2.6: Management Control Systems Framework**



Source: Adapted from Otley (1999)

This framework has been used widely in case studies related to three levels. First, it was used to gain information and describe the operation of each organization's control system.

Second, it was used to analyze the design of control systems in the organizations. And third, it was used to address the additional issues and suggest further development of the framework (Otley, 2008; Tuomela, 2005; Ferreira, 2002; Otley, 1999). However, it also has a lot of weakness. Firstly, it does not explicitly consider the role of vision and mission in MCS or address how to make managers and employees aware of the objectives (Simons, 1995). Secondly, it only focuses on diagnostic control systems in lever of control framework (Widener, 2007; Henri, 2006; Simons, 1995). Thirdly, it does not address how the control information is used (Simons, 1995; Otley, 1978). Fourth, this framework ignores the dynamics of control system change and development, and finally it does not take the interrelationship between different parts of control performance management systems into account (Stringer, 2007; Malmi and Granlund, 2005).

This traditional control role of MCS is also captured by the diagnostic systems and belief systems in LOC (Van der Stede, 2000; Chapman, 1997; Simons, 1995), which may generate negative effects (Simons, 1995). Strategic risk can rise from both operations and external environments, and both beliefs and boundary systems in LOC framework help organizations counteract and minimize undesirable and negative behaviour and manage strategic uncertainty and risk. The administrative control and the formal, system-based and accounting control systems such as budgeting control and BSC are usually used to support this traditional control role of MCS.

**Leadership** is an example of the power mechanism; leaders direct the communication effort and influence employees' behaviour, and it is regarded as a means of ensuring accountability, executing organizational vision and implementing organizational strategy and plans (Abernethy, Bouwens and Lent, 2010). Leadership is also used to influence employees' behaviour by facilitating individual and collective efforts to accomplish

organizational goals (Yukl, 2005). Scherr and Jensen (2006) argued that strong leaders prefer to use formal accounting systems to direct and monitor achievement of objectives through hierarchical and structured forms of communication, and formal and standardized routines. However coercive types of leadership can threaten and dominate the relationship (Lindkvist and Llewellyn, 2003). In this management style, leaders tend to monitor, control and direct employees' behaviour by using standardized structures and fixed procedures, so employees will not have freedom and autonomy to make their own decisions, and the subordinates need to get authorization to carry out specific tasks (Bolton, Brunnermeier and Veldkamp, 2008). This leadership style also influences the way of communicating; leaders use the formal and accounting controls to communicate the organizational vision and translate strategy into operational goals and objectives, which is described as diagnostic use (Simons, 1995).

**Culture** is also recognized as a particular form of control (Alveeson, 1995; Kunda, 1992). Henri (2006) described that organizational culture can be considered as a tool to constrain organizational actions and direct its members' behaviour. As a component of management control, it constrains employees' behaviour by influencing their beliefs and attitudes using organizational policies and values. So culture control is designed to affect and regulate people's behaviour in the attainment of organizational strategies and goals (Mintzberg, Ghoshal and Quinn, 1998). Simons' (1999 and 2000) LOC framework addresses the notion of culture as belief systems to control employees' behaviour in organizations. And Ferner (2000) also argued that the formal structural control is a part of culture control. The organization with strong control culture favours bureaucratic control, which has been characterized by strict regulations, formalized procedures, and hierarchical relationships (Batac and Carassus, 2009).

### **2.4.3 Criticism of the Traditional Control Role of MCS**

Many researchers (Whitley, 1999; Nandan, 1996; Otley, Berry and Broadbent, 1996; Berry, Broadbent and Otley, 1995) have criticized the conventional view of MCS from different perspectives. First, Whitley (1999) criticized the traditional management control approach for being too narrow in only focusing on accounting information and small parts of control process and ignoring others parts and the peoples' behavior. Otley, Berry and Broadbent (1996) and Otley and Berry (1980) justified their criticisms; arguing that organizational objectives sometimes are vague and control measures are subjective. They believe this traditional control model is unreliable, that it has not paid attention to the ambiguity and uncertainty of the control process. And the traditional and formal MCS have a tendency to provide standard and incomplete information for managing unpredicted events and unsuitable for uncertain environment (Chenhall, 2005). It is criticized that the traditional control role of MCS emphasizes executions rather than exploration, and highlights repetitive processes rather than creative routines. This static process does not consider contextual factors (Bonner, Ruekert and Walker, 2002), consequently, it does not enable organizations to adapt to fast changing environments (Davila, Foster and Oyon, 2009; Chenhall, 2003).

Second, traditional role of MCS emphasizes hierarchical relationships and priorities (Collier, 2005; Ahrens and Chapman, 2004), it restrains social relationships and trust which has a negative impact on employees' attitude (Bonner, Ruekert and Walker, 2002; Amabile, 1998). Traditional control value is based on explicit contracts, hierarchal systems and extrinsic motivation, which are all designed to improve efficiency and emphasize goal achievement; it is often seen as a hindrance for organizational learning and innovation which rely on intrinsic motivation, freedom, experimentation and flexibility (Amabile,



1998; Weick and Westley, 1996). Organizations now are facing more complex, rapid and unexpected environment changes; the control systems cannot be formal and static, they should be in the form of social controls which allow autonomy and rely on employees' judgement based on organizational strategy and objectives (Tushman and O'Reilly, 1997).

Drawing upon the above sources, Davila (2009) argued that the traditional view of MCS is incompatible with the dynamic nature of innovation. The traditional control has been interpreted as a formal process from established guidelines to minimize deviations and achieve pre-set goals which has negative impact on the innovation. The formal MCS do not have constructive effects on product innovation (Bessent and Pavitt, 2005; Verona, 1999; Tidd, Dougherty and Hardy, 1996). In line with this view, based on meta-analysis, Damanpour (1991) found that there is a negative relationship between control and innovation, and formal control systems are obstacles to creativity and detrimental to innovation (Abernethy and Brownell, 1997; Brownell, 1985), thus it has been confirmed that roles of MCS on the control and innovation are incompatible (Hall, 2001; Amabile, 1998; Abernethy and Stoelwinder, 1991). Formal process control has also been negatively associated with innovation and project's performance (Bonner, Ruekert and Walker, 2002; Abernethy and Brownell, 1997). Budgeting control has been criticized for stifling learning and innovation by limiting the flexibility of operation and empowerment of managers, eliminating team working, inhibiting innovative responses to changing environments and prohibiting the creativity required for innovation and learning (Frow, Marginson and Ogden, 2010). And it also encourages individualism, hierarchical dependence and risk aversion (Otley, 1994; Robert, 1991).

Finally, Langfield-Smith (1997) and Dent (1990) argued that placing emphasis on accounting measures and financial information requires conformity, stability and efficiency,

which encourages conservatism and an attitude of playing safe. Nevertheless, the traditional accounting-based control is no longer suitable and new dynamic forms of MCS, including adaptive control systems and more broad control systems should be introduced (Otley, 1994). The formal control systems which play a control role of MCS are still needed to carry out the traditional functions of organizations, but there is also a demand for a role of MCS in response to the changing environment (Simons, 1995 and 1999).

#### **2.4.4 Demand for New Control Approaches**

Based on all the criticisms of traditional views of MCS, a new role of MCS has been requested and proposed. Hearth (2007) stated it is necessary to consider broader social, moral and behavioral conditions in managing complex organizations and participants, and traditional views of management control have failed to address these aspects. Otley (1996) argued the center of the MCS is about accountability between the peoples, and contextual factors have a huge impact on controls systems, so the iterative and informal approach is suggested to deal with personal relationships, contextual factors and uncertain tasks (Koen *et al.*, 2001). Simons (1995) stated that there are demands for adaptation and innovation, the organizations that only rely on implementation and execution of the pre-designed strategy cannot survive in the fast changing environment, and the formal control systems need to be adapted and flexible for innovation need (Davila, 2009).

#### **2.5 Innovative Role of MCS**

The emerging understanding of MCS for innovation has recently been developed (Chenhall and Euske, 2007; Davila, 2000 and 2005; Simons, 1995; Zirger and Maidique, 1990). It has been demonstrated that formal control systems can be compatible with this

and foster innovation (Nixon, 1998; Chenhall and Morris, 1995), and that interactive use of MCS can encourage innovation as well (Widener, 2007; Simons, 1995). Compared with cybernetic control, the organic and social control elements tends to be flexible and responsive with less rules and simple procedures which promote free-flowing communications and facilitate innovation (Chenhall, 2003). The innovative role of MCS is related to loose and informal control, flat structure, lateral channels of communication, spontaneity, transparency, flexibility, adaptation, information sharing, enterprise, and adaptability (Wouters and Wilderom, 2008; Henri, 2006; Davila, 2000).

Flexibility and innovation are often seen as important elements of organizational competitiveness and competitive capacity (Mouritsen, 1999). Innovation is associated with taking advantage of unexpected events, risks and failure (Davila, 2009), and also with involving developing new processes or products and creating new links and alliances (Revellion and Mouritsen, 2009). In contrast with the traditional control role of MCS, the innovative role of MCS may play an important part in these settings (Langfield-Smith, 2007; Davila, 2000 and 2005; Chapman, 1998).

The impact of MCS on innovation is discussed controversially; some studies indicate MCS are a threat to creativity and irrelevant to innovation. The traditional control systems do not encourage flexibility and adaptation (Otley, 1994); for example, tight budgetary control only pursues profit, which limits innovative activities (Dent, 1990). Herath (2007) found that interactive systems play a positive role in strengthening strategic capabilities such as innovativeness, organizational learning and entrepreneurship. Ahrens and Chapman (2004) and Chapman (1998) found the relevance of using formal MCS for supporting innovation. Kloot (1997) and Simons (1995 and 2000) found that interactive control systems are associated with strategic control and play a role in encouraging innovative behaviour, which demonstrated that the role of MCS can cultivate flexibility, facilitate communication

and coordination, and encourage organizational learning and innovation. In addition, Simons (2000) argues that middle-level managers play an important role in encouraging creativity and innovations through communication, which drives strategic renewal. Abernethy and Brownell (1997) also mentioned that MCS can support innovation setting by planning, evaluating and managing the innovation process. In this process, the non-accounting controls play an important role.

### **2.5.1 Need for the Innovative Role**

Organizations are facing rapid technological and environmental change, dramatic competition, huge market uncertainty and volatility today. The capacity of learning and innovation, and flexibility and adaptation need to be developed to help organizations compete in the rapid changing environment (Frow, Marginson and Ogden, 2010; Abernethy and Brownell; 1999). The organizations that can match their capabilities with the changing needs of environment will survive (Otley, 1994). MCS must be designed to help organizations to learn in order to adapt to the changing environment. And the organization should enhance its capability to respond to external changes, managers should be encouraged to be experimental and risk-taking, rather than focusing on control mood and playing safe, which stifle creativity and leaning (Frow, Marginson and Ogden, 2010; Mouritsen, 1999; Otley, 1994).

### **2.5.2 Innovative Role of MCS for Strategic Change**

Lorange, Scott-Morton and Goshal (1986) introduced the strategic control concept which moves away from focusing on the traditional accounting controls and financial information to looking at competitors, customers, markets and environment. This concept provides

managers with more options to manage organizational changes, thus it helps them respond to the need for change according to the external environment rather than only emphasize on execution (Dent, 1991). And it facilitates creativity and innovation by using more open reporting and information (Barringer and Bluedorn, 1999). Li *et al.* (2005) studied the change process related to innovation by using the strategic control concept, and found that control is relevant to dealing with uncertainty and strategy formulation. Hansen and Van der Stede (2004) found that budgets play a role in the process of strategy formulation. Balanced Scorecard (Kaplan and Norton, 1996) as a PMS is relevant to strategic process, which helps challenge and validates underlying strategy assumptions. Yet all the evidences supports that MCS have positive effects in uncertain environments, and that strategic control provides new insights to the role of MCS in innovation setting, however it did not fully capture the role for innovation demands, which needs to be clarified (Davila, 2009).

The concept of adaptive routines (Weick, Sutcliffe and Obstfeld, 1999) enhances the role of MCS for innovation. Adaptive routines are flexible to adapting to unexpected events and change; they provide stable and flexible frames to communicate and bring new ideas, and thus enhance the capability of dealing with unpredictable settings and unexpected events. Following adaptive routines, Zollo and Winter (2002) identified dynamic capabilities which provide formal structure with the ability to address and manage rapid change, which captured the role of MCS for learning and innovation. This concept supports the idea that MCS can play a role in uncertain settings, which is different from the traditional role of MCS and provides the theoretical foundation to explore the role of MCS in innovative settings.

In Simons' (1995) LOC framework, the concept of belief systems and interactive control systems can be used to foster learning and innovation to drive strategic renewal. Belief

systems such as PMS and intrinsic and extrinsic incentives may be used to encourage people, foster creativity and support innovation. Interactive control systems stimulate the dialogues, discussions and debates about the strategic uncertainties to challenge the existing strategic assumptions, and encourage information exchange, new idea generation and opportunity-seeking to build new business model, hence interactive control systems facilitate organizational learning, foster innovation and enhance organization's performance (Picard and Reis, 2002; Simons, 1995 and 2000). Furthermore, belief systems are important for communicating the organizational vision and strategy within organizations, and the boundary system can be used to signal the appropriate area for exploring new opportunities (Simons, 1994). Marginson (2002) used Simon's LOC framework to investigate the role of MCS for managing strategic process and change; the study shows the interactive systems encourage risk taking.

Davila (2005) proposed a model of MCS for innovation and strategic change. He describes MCS as tools used by managers being able to influence the strategic process and how strategy is implemented, developed and adapted (Table 2.4). This model is developed for different types of innovation: MCS as a structural context through the procedures and routines, which can be used for executing deliberate strategy and translating the incremental innovation into value; and guiding the induced strategic actions and incremental innovation to refine the current strategy. MCS as a strategic context through the culture setting, which can be used for crafting autonomous strategic action and creating radical innovation which fundamentally refine the strategy; and build new competences and support the radical innovation which redefine the strategy (Davila, 2005).

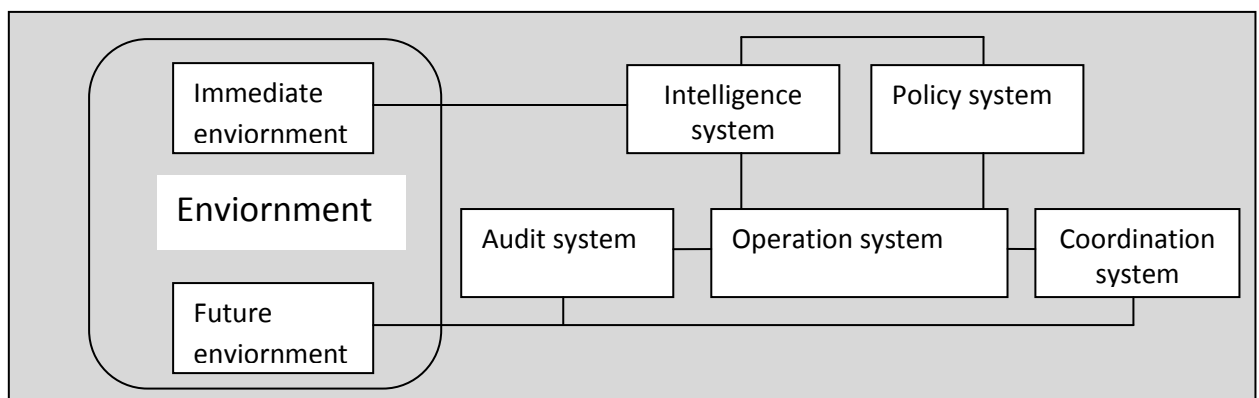
**Table 2.4: Model of MCS for Innovation Strategy**

Components of strategy	Organizational context	MCS role
<b>Current strategy</b> Deliberate strategy (Incremental innovation during the planning phase)	Structural context	Support the execution of deliberate strategy and translate the incremental innovation in into value
Induced strategic actions (Incremental innovation during the implementation phase)	Structural context	Provide the framework for incremental innovations that refine the current strategy through the organization
<b>Future strategy</b> Autonomous action (Radical innovation from bottom of the organization)	Strategic context	Provide the context for creation and growth of radical innovations that fundamentally redefine the strategy
Strategic innovation (Radical innovation from top management)	Strategic context	Support the building of new competencies through the radical innovation that radically redefine the strategy

Source: Davila (2005, p .47)

The viable system model (VSM) (Beer, 1994) including five functions: 1) operations systems; 2) coordination systems; 3) control systems (audit systems); 4) intelligence systems; 5) policy systems (Beer, 1994). The lines among different systems represent the communication channels among the systems and its environment (See figure 2.7).

**Figure 2.7 Viable Systems Model (VSM)**



Source: Adapted from Beer (1994)

This model provides a detailed view of control and sufficient conditions to make the links among systems, so that they can respond to threats and opportunities (Jackson, 1991). It provides a more detailed explanation of how control systems support change (O'Grady, Rouse and Gunn, 2010). This model can be applied to all different kinds of control systems. Operations systems allocate the organizational resources to support daily management activities. Coordination systems coordinate activities through designed routines and standard procedures. Control systems are responsible for improving efficiency by creating individual roles and structured processes. Intelligence systems are used to collect and analyze external and internal information about changing environment. Policy systems are used to establish organizational rules and develop the overall organizational vision and strategy (Beer, 1994).

As discussed, Ferreira and Otley's (2006) performance management and control framework and Simons' (1995) levers of control could not explain how control systems operate across different levels in organizations to facilitate organizational change. VSM makes the communication channels visible for transferring the right information to the right location and explains how the systems respond to the environmental changes. O'Grady, Rouse and Gunn (2010) argued that the control systems would not be effective if the communication channels are not well designed. VSM makes the information and communication infrastructure explicit to suit appropriate types of information (Hartmann and Vaassen, 2003).

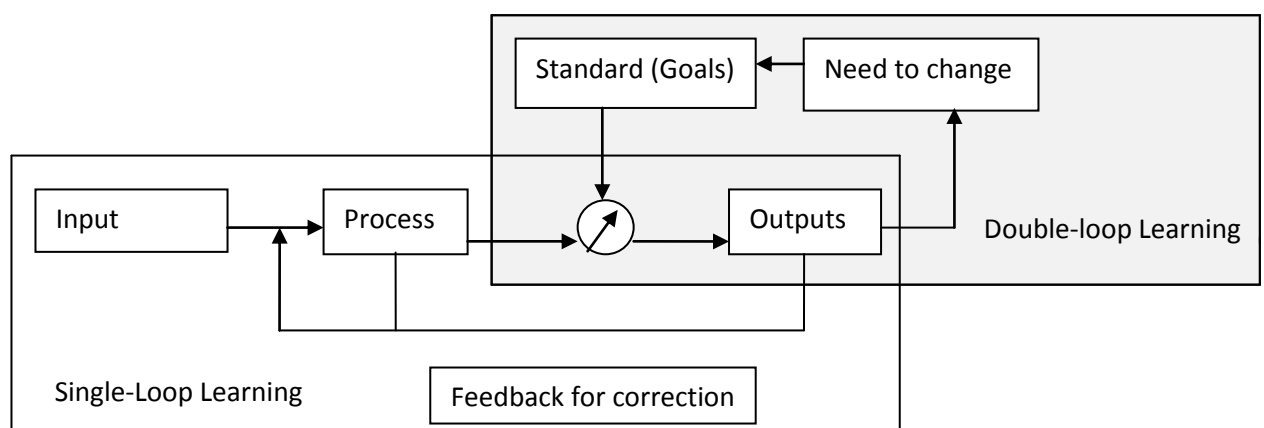
### **2.5.3 Innovative Role of MCS for Encouraging Learning**

The role of MCS for organizational learning becomes a big part in accounting and innovation literature. Learning can improve organizational capability and competitive



advantage and improve organizational performance, and it is directly associated with MCS (Chenhall, 2005). MCS affect and are affected by organizational learning (Gray, 1990), Klot (1997) suggests there is a two-way recursive relationship between MCS and learning. Two levels of learning have been identified (See figure 2.8): the single-loop learning and double-loop learning. Single-loop learning is also called adaptive learning. It is similar to cybernetic control which does not involve major changes, but corrections according to pre-set goal. This learning level reflects stability, consistency and rigidity of traditional control value (Argyris and Schön, 1996). The double-loop learning is also recognized as generative learning. It involves not only problem solving and corrections, but also challenging and revising pre-set goals (Argyris and Schön, 1978 and 1996). This level of learning refers to the adaptability, flexibility and creativity value of the new approach of control (Henri, 2006; Marginson, 1999; Swieringa and Wierdsma, 1992). Moreover, individual learning is not adequate, team learning and network sharing are necessary to support organizational learning as well (Marquardt and Reynolds, 1994; Senge, 1990; Argyris, 1977).

**Figure 2.8: Single-loop Learning and Double-loop Learning**



Source: Adapted from Anthony (1965)

Diagnostic control systems have been seen as examples of single-loop learning. Such control systems helps translate and communicate strategy (Simons, 1994), for example PMS can be used to inform organizational strategy (Kaplan and Norton, 1996). Kloot (1997) concluded that MCS and PMS can facilitate organizational learning through two case studies. Simons (1990, 1991 and 2000) illustrated that interactive systems can be seen as examples of double-loop learning which facilitate the learning process by suggesting ideas and opportunities and encouraging initiatives and creative behaviour.

The relation between interactive systems and learning is also supported by the empirical evidence (Abernethy and Brownell, 1999). Kloot's (1997) study identified many control systems can be used to enable higher level learning, Jonsson (1996) demonstrated that planning and accounting systems can foster learning through dialogue and communication, while Vaivo (2004) argues interactive use of financial measurements can provoke discussions and facilitate knowledge management and learning. Marginson (2002) found that belief systems can bring new ideas, actions and initiatives through adapting new strategy, and that boundary systems can be used to motivate employees to search for new ideas within an acceptable domain. Marquardt and Reynolds (1994) found that leaning only happens when the problems are detected and the learner is motivated to learn, and organizational learning is based on individual learning, but more than the sum of individual learning, it is influenced by social, political and structural variables.

MCS and organizational learning can both be used to fit the changing environment; organizational learning depends on the characteristics and uses of organization's MCS, and Kloot (1997) summarized the characteristics of MCS in a leaning organization. Organizations without these characteristics in their MCS limit their capacity to change or adapt in a changing environment:

- *Appropriate accounting information* is required to be freely and frequently available to support generative or double-loop learning and adaptive or single-loop learning.
- *Performance measurement systems* remain as the foundation for effective management control, which should include financial and non-financial information, such as BSC.
- *True participative decision-making* and employee empowerment must be encouraged to assist the learning organization.
- Strategic planning must involve more managers and employees to encourage flexibility and creativity to respond to the external change.
- *High quality* should be emphasized and shared vision should be developed throughout the organization for learning purpose.

In order to achieve flexibility and adaptability for supporting organizational learning and innovation, the organization must be organic, integrative, decentralised, adaptable (Burns and Stalker (1961), and rely on “*front-line empowerment, interdependence of units, flatter hierarchies, horizontal communication, collaborative internal networks and multi-functional project teams*” (Frow, Marginson and Ogden, 2010, p. 444). The different types of organizational structures have also been identified as an important element which has big impact on organizational learning. Different control system structures may favour different types of organizational learning, and Batac and Carassus (2009) found the horizontal organizational structure facilitates the flow distribution of information and knowledge. So the best organization structures for learning are those which are designed to manage and facilitate change (Euske, Lebas and McNair, 1993; Lowe and Puxty, 1989).

Another important aspect of the innovative role of MCS is linked to knowledge management. The organization must set up and link all the process, resources and capabilities which can encourage knowledge sharing across different units and levels

(Lawson and Samson, 2001; Clark and Wheelwright, 1993). Ditillo (2004) found a direct relationship between MCS and knowledge, and that MCS play a role for distributing and mobilizing knowledge and integrating all sources of knowledge for goal achievement and stimulating the organizational learning. Ditillo (2004) found that formal control systems can facilitate coordination and integrate knowledge, nurture interaction and create shared value to deal with uncertainty. Vaivio (2004) also addressed that non-financial controls can trigger more intensive communication and debates and generating new ideas and knowledge.

Herath, (2007, p. 80) found that “*Development culture relies on adaptability and readiness to attain growth, innovation, and creativity*”. “*Organizations must be oriented to learning in order to learn*” (Widener, 2007, p. 766), and when an organization has “*a culture amenable to learning*” (Galer and Van Der Heijden, 1992, p. 11), thus it will improve its environment for learning, so culture has been identified as one of most important elements for organizational learning and innovation. Colarelli O’Connor and Ayers, (2005) and Simon *et al.* (2003) suggested that organizational structure, culture and competences and management systems can be used to stimulate and develop radical innovation. The role of culture control for innovation is acknowledged in the literature review.

#### **2.5.4 Innovative Role of MCS for Enabling Employees’ Behaviour**

Adler and Borys (1996) provided another new concept, extending the role of MCS to pursue innovation. Coercive use of MCS is a top-down cybernetic control approach, which emphasises formal procedures and focuses on centralization and pre-designed objectives and goals which restricts employees’ innovative actions (Adler and Borys, 1996). In contrast, enabling use of MCS is to enhance users’ capabilities of using accounting

information more effectively gives managers freedom and empowerment and supports them to deal with unexpected events and encourage employees to be flexible and innovative to carry out their activities (Ahrens and Chapman, 2002). Wouters and Wilderom (2008) and Ahrens and Chapman (2004) found that managers tend to use MCS coercively rather than enabling, coercive use of MCS restricts the innovative behaviour (Armstrong, 2002; Seal, 2001), and enabling use of MCS in a stable environment may be harmful to the organization's stability (Wouters and Wilderom, 2008; Abernethy and Brownell, 1999). Enabling and coercive uses of MCS has been demonstrated in a case study of a UK restaurant retail chain to help balance flexibility and efficiency (Ahrens and Chapman, 2004).

The central element of social control is organizational culture (O'Reilly and Chatman 1996). Social control mechanisms can be used to foster socialization and interaction among members based on structural arrangements, shared value, norms and trust, and social control is exercised through relationships and trust which involves personal attitudes. And trust in the relationship can encourage partners to cooperate further (Velez, Sanchez and alvarez-Dardet, 2008). So, social control cannot be viewed as a simple control mechanism used to influence others' behaviour, but as interactive processes based on relationships (Velez, Sanchez and lvarez-Dardet, 2008). Tushman and O'Reilly (1997) explained that social control allows directed autonomy and relies on employees' discretion based on organizational vision and objectives. Chenhall (2005) confirmed informal personal and social controls as active elements which give individuals power and freedom to achieve organizational goals. Chiesa *et al.* (2009) found that flexible and social control embedded in interactive and boundary control systems contribute to radical innovation projects. Ouchi (1979) illustrated that clan control dominates formal control systems in a high-

innovation setting department. And Abernethy and Brownell (1997) also found that personnel controls dominate the control process in an R&D setting.

The importance of the leadership role in organization corporate governance and accounting practices is well recognised, and it is also the key to understand innovative organization activities (Herbert, 2009). Significant evidence has supported the important role of leadership in influencing organizational functioning and employees' behaviour (Abernethy, Bouwens and Van lent, 2010). Organizational behaviour is the result of personal relations between leaders and followers, and it has been argued that having power to direct and control subordinates is only part of leadership. And empowerment of subordinates is also related to senior management leadership, so management leadership is considered as a means of empowering employees, because leaders decide the way how they use the controls to influence employees in organization (Yukl, 2005; Roberts, 2004). Abernethy, Bouwens and Van lent (2010) found that leadership style influences the use of formal planning and accounting control systems. Simons (1995) found that leadership can also be used as a mechanism to facilitate greater informal communication. In other words, enabling leadership can empower employees to make decisions without being bounded by tight structured roles and responsibilities, so this type of leadership can involve subordinates in the decision-making process. Therefore, the innovative role of MCS is not relevant to the formal MCS, but in favour of culture, team work, communication dynamics, social and culture control and leadership styles (Tushman and O'Reilly, 1997).

#### **2.5.5 Criticism of the Innovative Role of MCS**

The literature has provided adequate evidence to support the role of MCS in an innovation setting. The innovative role of MCS can be useful to facilitate learning and foster

innovation; however it may have negative effects and cause problems (Widener, 2007; Simons, 2000). Inappropriate interactive use of MCS may cause unintended consequences, too much focus on the interactive use of MCS can de-stabilise and threaten organizational strategy by generating constant change or preventing employees from doing their own duty, while less focus on the interactive use of MCS can result in failure to challenge the strategic plan and seize the opportunity for change (Bonner, Ruekert and Walker, 2002; Simons, 1995; Dent, 1991). Otley (2004) suggested that interactive use of MCS has negative effects in innovative settings in otherwise high-innovation companies. Social control which is built on personal relationships can be harmful to organizational performance and success, and too much freedom and empowerment can lead the organization out of control and can put them at risk (O'Reilly, *et al*, 2010). Enabling the use of MCS in a stable environment may harmful to the organization stability (Wouters and Wilderom, 2008; Abernethy and Brownell, 1999). Kennedy and Schleifer (2006) discussed that too much empowerment without control can endanger the security of organizations, so tensions between the control role and innovative role of MCS must be managed in order to achieve the balance between them.

## **2.6 Tensions between Control and Innovative Roles of MCS**

The existing literature has developed a comprehensive understanding of the roles of MCS, the traditional role of MCS for controlling and new perspective of role of MCS for innovating are well evidenced and supported, and how they these two roles can be implemented are also explained and documented (Mundy, 2010; Ahrens and Chapman, 2004; Simons, 1995 and 2000; Chenhall and Morris, 1995). To a large extent, the relationships between these two roles of MCS are identified as well, but the relationship between the different roles of MCS has been controversially reported. Some researchers

consider that they complement each other (Widener, 2007; Simons, 1995), while others see these two roles of MCS as a paradox or a pair of contradictory functions; they are conflicting and competing with each other in the organization (Merchant and Otley, 2006; Chenhall, 2005). The tensions between these two roles of MCS have been identified; however how the tensions between these two roles of MCS can be reconciled is not fully explored and lacks empirical evidence according to the literature (Mundy, 2010).

### **2.6.1 The Interplay between the Different Roles of MCS**

Many researchers have pointed out it is important to investigate interrelationships between the different control systems; however the relationships between control systems are not well explained (Mundy, 2010; Henri, 2006; Collier, 2005; Simons, 1995). It has been confirmed that the control systems relate to each other, however it is not clear how they impact on each other and whether the relations are complementary or subsidiary (Widener, 2007). Some researchers suggested that there are multiple inter-dependent and complementary relations among the control systems (Widener, 2007; Milgrom and Roberts, 1995). This view is supported by the empirical evidences that the interdependencies among control systems are complementary (Kennedy and Widener, 2006; Anderson and Dekker, 2005). Other researchers suggested that the control systems do not only complement each other, but operate as substitutes (Ferreira and Otley, 2009; Huikku, 2007; Abernethy and Chua, 1996; Fisher, 1995). Further more Alvesson and Karrenman (2004) described how control systems are connected, complementing and sustaining each other. So effective control does not rely on existing separate control mechanisms, but depends on how they are coordinated with each other (Simons, 2000; Otley, 1999).



Collier (2005) reviewed the various frameworks to gain deep understanding of the linkages and relationships between formal, systems-based approaches and informal and social controls; he concluded that the relation between formal and social control is interconnected and complicated. Hofstede (1981) confirmed the usefulness of traditional control systems, and also suggested the informal control systems can complement these rather than replace them. Otley's (2005) and Simons' (1995) studies are useful to help understand the interaction and relations between the control systems- they indicated the different levers of control systems are complementary to achieve organizational goals. Widener (2007) found evidences to support interdependence and complementarity relationships among all four levers in LOC. In contrast, some researchers argued that MCS may be used for different purposes and different uses, and different forms of control systems sometime interface with each other, and sometime contradict each other, however they are not contradicting each other all the time, or restrained and dominated by one form (Alvesson and Kärreman, 2004). When control systems are used for different competing purposes, they may contradict with each other, and the conflict between the formal and social control has been acknowledged. Formal control is associated with traditional control value and informal and social control is associated with flexible and innovative value, they have been seen as conflicting elements (Collier, 2005). Mechanistic controls emphasise efficiency, and organic controls prioritize flexibility (Marginson, 2002; Chapman, 1998), thus, they have been seen to be incompatible with each.

Simons (2000) demonstrated that four levers in LOC interact and coordinate with each other to control strategy implementation and facilitate strategic renewal; the different uses exercised though different levers of MCS can generate “*dynamic tension between opportunistic innovation and predictable goal achievement that is essential for positive growth*” (Simons, 1995, p. 153). As mentioned before, boundary and diagnostic control

systems generate negative effects, which mainly focus on controlling, while belief and interactive control systems generate positive effects, which emphasize innovation (Simons, 1995). Balancing the dynamic tension can enhance goal achievement, organizational learning and innovation, and capabilities of managing changes which all contribute to organizational performance (Henri, 2006). So it shows clearly the relations among the different levers in LOC are interdependent while simultaneously conflicting (Merchant and Otley, 2007; Otley, 1999). Referring to conflicting relationships between different uses and roles of MCS, recent studies suggested the benefit of balancing and combining these two roles to achieve control and flexibility simultaneously (Frow, Marginson and Ogden, 2010; Chenhall, 2005; Ittner, Larcker, and Randall, 2003).

The interrelationships of different control systems and the roles of MCS need to be revealed, because the relationships and links between control systems and their combined effects play an important role in organizational overall control. Berry *et al.* (2009) and Widener (2007) and suggested that MCS studies should consider the links and effects and make them explicit between different control systems and different roles of MCS.

### **2.6.2 The Tensions between the Traditional Role and Innovative Role of MCS**

The natural conflicts between the roles of MCS have been acknowledged in the existing literature. The different roles of MCS for control and innovation are seen as a pair of conflicting values (Ittner and Larcker 2001, Atkinson, Waterhouse and Wells, 1997; Simons, 1995), and the essence of using MCS is to balance the dilemma between predictable goal achievement and creative innovation. Simons (1995) described that this tension is between the need for predictable goal achievement on the one hand, and the pursuit of strategic adaption and renewal on the other. The tension between the different

roles of MCS lies between controlling strategy implementation and pursuing the strategic renewal at the same time, and both roles of MCS are equally important for contributing to organizational growth. Therefore, it is important to balance the tensions between different needs for control and for innovation. To achieve this, all four control levers in LOC must be balanced in order to manage the inherent tensions between “(1) *unlimited opportunity and limited attention*, (2) *intended and emergent strategy*, and (3) *self-interest and the desire to contribute*” (Simons, 1995, p. 28).

Frow, Marginson and Ogden (2010) confirmed that this conflict is between traditional role of accounting control for goal achievement and innovative role of MCS for strategic adaption, demands for improving resource efficiency and fostering creativity (Perez-Freije and Enkel, 2007); and the needs for achieving financial targets and pursuing strategic initiatives (Marginson, 2002). Sprinkle, Williamson and Upton (2008) found out the tension between controlling and enabling uses of MCS can arise when risk-taking behaviour threatens goal achievement, or when emerging strategic ideas challenge existing plans (Seal, 2001). Thus from this point of view, the tension can be described between the role of MCS for achieving organizational goals and the role for enabling employees to search for alternative solutions and new opportunities (Zimmerman, 2005; Ahrens and Chapman, 2004; Chenhall and Morris, 1995; Simons, 1995).

Simons (1995) also described this conflict is between the limited attention to many opportunities and incompatible desires for achieving organization's goals and self-interest (Ezzamel, Wilmott, and Worthington, 2008; Abernethy and Vagnoni, 2004; Simons, 1995). Henri (2006) and Leana and Barry (2000) indicated that the dilemma of MCS lies between the competing values of control and flexibility. Therefore, maintaining an optimal balance between stability and flexibility through control is very important and has always

been a major challenge for organizations (Herath, 2006). Zimmermanm (2005) confirmed that the conflict is between two different uses of MCS for decision-influencing and decision-facilitating. MCS should be stable while also being adaptable in order to balance short-term objectives with long-term visions (Nixon and Burns, 2005). Mundy (2010) argued the concept of balance is crucial, but not explicit, and that how to balance the tensions between roles of MCS is under-researched.

Thompson (1998) found a paradox of MCS lies between the concepts of control and autonomy, and that they are both important. Leadership skills play an important role in balancing this paradox. The balance can be made through setting the key reliable and consistent performance indicators and giving employees freedom to operate. In addition, this view is consistent with Norman's (2001) research in public organizations; there is a challenge to balance the control and freedom; the control must be with a consistent strategy and sufficient autonomy to foster initiative and responsiveness. A similar argument was made by Roberts (1991, p. 364), who described "*the competing demands for individual accountability for financial performance on the one hand, and collective cooperation for strategic adaptation and change on the other*", and they only can be mediated through explicit linkage between them.

The tension is also described as how to use the MCS to balance the employees' loyalty to an organization and their individual interests, and how to assess managers individually by accounting and performance control and evaluation, and require them to work across their individual responsibility (Roberts, 1991). The tension is also explained by Simons (1995), how to use formal controls to constrain employees' behaviour, while at the same time, use informal controls to motivate employees to experiment and encourage creativity (Koene *et al.*, 2002; Waldman *et al.*, 2001). So these competing roles necessitate a balance between

taking actions congruent with the organization's goals while also giving employees sufficient autonomy to make decisions (Sprinkle, 2003; Roberts, 1990).

### **2.6.3 Balancing the Dynamic Tensions of Different Roles of MCS**

Herath (2007) argued that inadequate control can put organizations at risk and causes harmful consequences, and on the contrary, tight or too much control can generate negative effects which eliminate organization's flexibility and innovation. Therefore it is important to maintain the balance between stability and flexibility through appropriate control.

Mundy (2010) suggested organizations should develop capabilities to manage inherent organizational conflicts, between strategy implementation and strategic renewal; between the use of MCS for controlling individuals' behaviour and encouraging innovative actions (Wouters and Wilderom, 2008; Ditillo, 2004). An organization's inability to balance different uses of MCS is associated with slowing decision making, wasting resources, causing instability and failing to cope with changes, ultimately, lowering organizational performance (Bisbe, Batista-Foguet and Chenhall, 2007; Henri, 2006). Several studies have discussed the need to balance control and creativity (Frow, Marginson and Ogden, 2010 and 2005; Simons, 1995).

Organizations should balance formal and informal controls, mechanistic and organic controls in order to balance efficiency and flexibility (Mouritsen 1999; Ittner and Larker 1997). Control and flexibility may be achieved by combining formal operation process and informal activities (Frow, Marginson and Ogden, 2005). Brown and Eisenhardt (1997) found combining mechanistic and organic MCS can frame grid control and stimulate intensive communication to achieve objectives and drive innovation. The equal control can be achieved either by using different formal MCS (Huikku, 2007; Gerdin, 2005). The

control role of MCS relies on performance evaluation measures and indicators (Hartmann, 2000), and the performance indicators should be able to balance financial and non-financial perspectives, quantitative and qualitative metrics, in order to be able to facilitate goal achievement and encourage change and innovation (Bremser and Barsky, 2004; Werner and Souder, 1997).

Frow, Marginson and Ogden (2005) suggested organizations must balance the formal operational and hierarchical accounting controls with managers' initiatives and willingness. Furthermore, the organization should develop a broad framework of management control, and use formal and informal interaction and multi-functional project teams to blur the line between responsibilities and accountabilities, and increase shared responsibility to encourage boundary-spanning activities and team-working. In addition, he suggested that the tension between competing roles can be managed by formal, directed procedures and hierarchically and horizontally, informal and social interaction channels. Therefore in order to balance the tension, organizations must balance the demands of achieving pre-set objectives through formal accounting control and foster learning and knowledge sharing through teamwork and co-operation (Wilkinson, 1998; Roberts, 1991).

In order to meet different needs for competing roles and uses of MCS, the formal MCS should be dynamic, flexible and adaptive to changing environments, whilst at the same time being stable enough to frame cognitive models and communication patterns (Davila, 2005). The balance between control and innovation requires:

*“formal tools that structure the execution process without becoming rigid mechanisms; these tools are flexible enough to take advantage of unexpected opportunities but strong enough to keep the direction.”*

(Davila, Foster and Oyon, 2009, p. 287)

MCS should provide stable while adaptive structure which can facilitate consistent objectives and interactive communication, and they should balance the flexible disciplines with focused freedom (Davila, 2009). Otley (1994, p. 298) suggested that “*in essence we are having to move away from hierarchical, top-down approach to control to one where self-control, innovation and empowerment are least equal important*”. And the “*effective organizations combine tight controls with more open, informal and flexible information and communication systems*” (Chenhall, 2005, p 138)

Organizations should balance control and autonomy, because accounting control systems are designed and implemented to achieve bureaucratic criteria of efficiency and accountability, and the demands for flexibility are met through social and self-control mechanisms, so the conflict emerges when MCS are designed to control employees’ behaviour and increase their autonomy (Abernethy and Stoelwinder, 1995). The central problem of many organizations is the conflict between control and autonomy; top management teams try to gain the centre control by using formal control systems, and by contrast, middle level management teams tend to use autonomy to create decentralized control in their own area (Bolman and Deal, 1997). While too much autonomy can undermine consistency and destabilize coordination, too much control can stifle motivation and prohibit initiatives (Norman, 2001). Therefore social and self-control, self-discipline, self-monitoring and self-regulating mechanisms become the focus of control in modern organizations (Kloot, 1997). Organizations should balance ‘socialising’ forms of accountability, which are based on informal relationships, with ‘hierarchical’ forms of accountability which focus on formal and functional tasks (Roberts, 1991).

Organizations should reconcile the needs between controlling behaviour to attain individual targets with promoting collective behaviour to foster organizational learning and

strategic renewal. And Organizations also need to achieve the balance between the need for rigorous accountability of personal performance with engagement of collective objectives to achieve overall corporate performance (Frow, Marginson and Ogden, 2010). Norman (2001, p. 67) pointed out that *“the challenge is to balance the control necessary for a unified strategy with sufficient autonomy to foster initiative and responsiveness.”* Brown and Eisenhardt (1997, p. 1) also described this balance as the ability to blend *‘limited structure around responsibilities and priorities with extensive communication and design freedom’* so that *‘this combination is neither so structured that change cannot occur nor so unstructured that chaos ensues’*. And Norman (2001) pointed out that effective management control requires a balance between control and empowerment, formal reporting and informal motivation. So organizations should use MCS to *“ensure that employees respect these constraints and at the same time are free to take initiatives and foster innovation”* (Batac and Carassus, 2009, p. 104). In order to achieve the balance, the objective-setting processes, performance measurement and compensation control systems must be used in shaping motivational environment and the intrinsic motivation needs to be balanced with extrinsic rewards (Davila, 2009).

**The concept of continuous budgeting** (Frow, Marginson and Ogden, 2010) provides a new way to reconcile the conflicting objectives of MCS for meeting financial targets on the one hand, and requiring flexibility and adaption for managing the changes on the other hand. These competing objectives are balanced by integrating different uses of budgeting control with other informal controls. Continuous budgeting gives freedom and empowerment to managers and enables them to use their discretion to explore the opportunities and solutions to deal with unexpected events. It also imposes strict accountability to ensure managers remain committed to meeting their own and organizational targets. Thus it contributes both to control and flexibility.



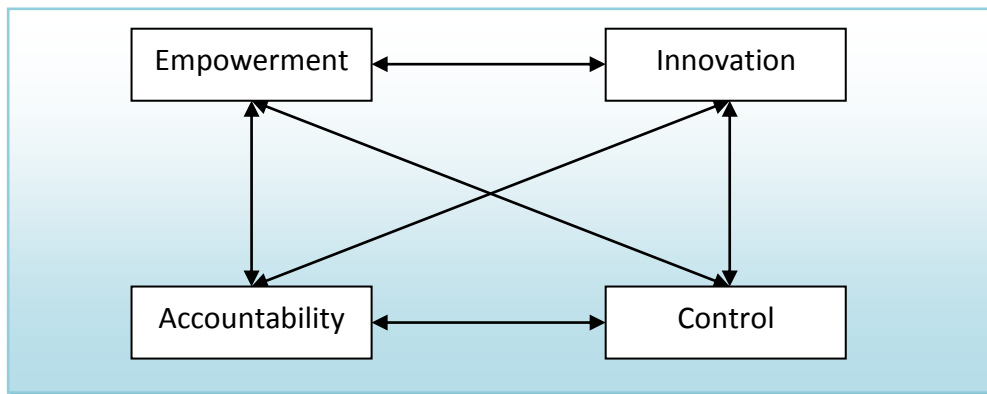
**Simon's (1995) LOC framework** incorporates the different uses of MCS by integrating four levers of control (namely belief systems, boundary systems, diagnostic systems and interactive systems). It provides a broad view of MCS by looking at different controls and different uses of control systems, and a better understanding of the design of MCS (Bisbe, Batista-Foguet and Chenhall, 2007; Widener, 2007; Henri, 2006; Bisbe and Otley, 2004). The power of this framework does not only create four individual kinds of control systems, it also explains how to balance the tensions between positive and negative controls (Ferreira, 2002; Simons, 1995). The four systems have both positive and constraining influence on organizational activities. Belief and interactive systems tend to encourage and stimulate organizational activities and innovation, and boundary and diagnostic systems limit and constrain organization activities and employees' behaviour (O'Grady, Rouse and Gunn, 2010; Jørgensen, B. and Messner, 2009; Kober, Ng and Paul, 2007). Therefore, the "*levers of control*" framework provides a useful tool to help manage dynamic tension between different uses of MCS package, and it allows organizations to pursue pre-established goals while encouraging innovation.

Many researchers used LOC framework to explore how managers attempt to balance the different uses and tensions of MCS. Some researchers used it in empirical studies to explain how organizations use their MCS to ensure goal achievement while encouraging innovation (Widener, 2007; Tuomela, 2005; Bisbe and Otley, 2004; Bonner, Ruekert, and Walker, 2002). The LOC framework also demonstrates the need for both control and empowerment (autonomy, freedom). It provides a useful tool to balance the dynamic tensions between different uses of MCS, rather than improving the design and structure of MCS. Multiple inter-dependencies have been found among all the levers in LOC (Simons, 1995 and 2000), so most importantly when using LOC is to find out the interrelations and integrate different levers to create and balance dynamic tensions.

Ferreira (2002) argued that the LOC framework's usefulness for balancing the tension is limited, because some control systems can be in the form of more than one lever of control (Tuomela, 2005). And the concepts such as core values in the framework are not clearly defined; the framework does not cope well with informal controls or explain the operation of controls at lower levels of management. It also does not consider the importance of informal and socio-ideological controls (Collier, 2005; Ferreira, 2002). Thus these weaknesses make the framework less useful to explain and balance the tension associated with employees' behaviours.

Based on Simons' (1995) levers of control framework, Kennedy and Schleifer (2006) provided a framework to explain the tensions between the Empowerment/Innovation and Accountability/Control (Figure 2.9). This framework explains empowerment and innovation as complimentary elements which can enhance each other. Kennedy and Schleifer (2006) discussed that too much empowerment without control can endanger the security of an organization, however too little empowerment restricts innovation. The controllability may reduce innovation, and the majority of performance measurement systems encourage control and hamper innovation. Accountability and control are also complementary to each other, and the control systems make people accountable for their actions. They outline three domains: (1) the use of information to control and guide actions (2) conditions for empowerment and creative innovations and (3) the selection of control mechanisms. These domains must be interrelated in order to achieve a balance between the tensions and create an environment to successfully drive innovations.

**Figure 2.9: Tensions between Empowerment/Innovation and Accountability/Control**



Source: Adapted from Kennedy and Schleifer (2006)

Studies based on contingency theory provide limited understanding of the interrelations between different roles of MCS only from a static and fragmented approach, so this type of research is irrelevant when studying the tensions between different roles of MCS (Fisher, 1995; Selto, Renner, and Young, 1995). The LOC framework addresses the tensions between different control systems, however it does not investigate the links and interactions between them, it is therefore difficult to explain how the tensions can be balanced and managed (Simons, 2000). For example, the tension between belief and boundary systems, diagnostic and interactive systems have been simply addressed in the LOC framework, however it does not clarify how these tensions are balanced.

The tension framework is designed on tensions of MCS (Kennedy and Schleifer, 2006; Simons 1995). The tensions between empowerment/innovation and accountability/control are specifically explained in the framework, and these tensions must be managed and transferred into organizational growth. However, the model only provides basic solution to manage the tension. In order to study tensions between the roles of MCS in organization, it should also include explicit consideration of multiple roles and uses of MCS, multiple levels of control, a broad range of mechanisms, communication channels, interrelations

between control systems and interaction with environment for attaining different goals of organization and balance between stability and change (O'Grady, Rouse and Gunn, 2010).

## **2.7. Factors Affecting the Balance of Tensions between Different Roles of MCS**

As discussed above, researchers suggested that the tensions between different roles of MCS can be balanced (Frow, Marginson and Ogden, 2010; Mundy, 2010; Batac and Carassus, 2009). However, what affects the balance of the tensions has not been explored. Some researchers suggested several important factors are related to the design and different roles of MCS (Frow, Marginson and Ogden, 2010; Mundy, 2010; Kennedy and Schleifer, 2006; Simons, 1995), including organizational environment, organizational structure and strategy, uses of MCS, organizational culture and management information systems. These factors have been included in the MCS models and theories which were discussed previously (Ferreira and Otley's, 2009; Herath, 2007; Simons, 1995), however no empirical research has been carried out to study whether they related to the tensions, and how they react to each other to affect the balance of the tensions.

Contingency theory mentions these different factors: environment, technology, size, structure, strategy and national culture, which influence the use and design of MCS, however it does not explain the links between factors and how they relate to the tensions (Chenhall, 2007 and 2003). It is based on the assumption that variables are related to each other in a one-to-one manner, and optimal MCS design in specific circumstances comes at the cost of system variety (Merchant and Van der Stede, 2006; Gerdin, 2005; Spekle, 2001). Perez-Freije and Enkel (2007) summarized seven factors which can generally be distinguished as the most important: industry dynamism, strategy, purpose of measurement, organizational structure, culture, size, and type of R&D. Contingency theory also explains

why organizational control systems are different based on the contextual factors (Otley and Berry, 1980), because the control systems' design and use must match different features of organizations and their contexts (Chenhall, 2003). Therefore these factors based on the contingency studies are associated with the design and use of MCS.

Most empirical contingency studies are related to the role of strategy, though recently contingency studies focus on environment, technologies and structural arrangements. These contingency studies try to explain how the effectiveness of MCS depends on the nature of these contemporary setting (Chenhall, 2003). This concept continues to provide a coherent and rich foundation to examine traditional and new control systems within contemporary settings; however this theory only considers the organizational and environmental contextual variables from economic, psychology, sociology, individual attributes perspectives to explain the adoption and implementation of MCS (Langfield-Smith, 2006; Chenhall, 2003). Thus it has been criticized for only relying on traditional and functionalist theories and not applying more interpretive and critical views.

Mundy (2010) indicated that how to balance tensions between uses of MCS is a unique capability and competitive advantage for an organization. This capability depends on trust, autonomy, power relations and professionalism, elements which are difficult to identify and replicate (Chenhall and Euske, 2007; Frow, Marginson and Ogden, 2005; Alvesson and Kärreman, 2004; Marginson, 2002). Mundy's study is based on the lever of control framework (Simons, 1995), and the findings indicate a number of factors: internal consistency (consistent objectives), logical progression (the order of using diagnostic and interactive controls), dominance/historical tendency/suppression (dominant on diagnostic or interactive controls), and the relationship between interactive process and remaining levers of control, which affect the capacity of organizations to balance controlling and

enabling uses of MCS. These factors are mainly based on LOC framework; it does not consider the factors beyond using the framework. All the factors which may have an impact on the balance of the tensions between different roles of MCS are discussed below.

### **2.7.1 External Environment**

Organizations have to change and adapt to external environments in order to survive and succeed, and external environment changes shift the organizational priorities as well (Bonner, Ruekert and Walker, 2002; Simons, 2000). Management control has been considered as a function of organizational flexibility and control capacity (Omta, Bouter and Engelen, 1997; Volberda, 1998). Organizational flexibility is associated with organizational ability to adapt to changing environments. Control capacity refers to organizational competence of achieving these adaptations. Organizations have to adapt their MCS to fit changing environments and keep the dynamic equilibrium (Kloot, 1997). Therefore the external environment plays an important role in balancing the tensions.

### **2.7.2 Selection of MCS**

Researchers suggest that control and innovation can be met by different MCS designs and selection of MCS (Kennedy and Schleifer, 2006; Gerdin, 2005). Formal, accounting system-based control systems are used to achieve efficiency, controllability and goal achievement, which emphasize the role of MCS on controlling, while informal, social and cultural control systems are used to facilitate communication and coordination which stress the role of MCS for innovation (Davila, 2009; Langfield-Smith, 2007). So the different designs and selection of MCS can affect the balance of the tensions.

### **2.7.3 Balanced Use of MCS**

The different ways of using MCS focus on different purposes; controlling use of MCS can reinforce control through monitoring and controlling processes to ensure a desired outcome is achieved, while enabling use of MCS can foster learning and innovation by enhancing managers' capability of using accounting controls and giving empowerment to deal with unexpected events (Ahrens and Chapman, 2002). Combining controlling and enabling uses of MCS can help organizations balance the inherent conflicts (Widener, 2007).

Simons (1995) suggested the balance between diagnostic and interactive use of MCS can facilitate goal achievement and strategic renewal. Ahrens and Chapman (2004) studied the balance between flexibility and efficiency by combined coercive and enabling use of MCS. Combining single-loop learning with double-loop learning can not only help organizations solve the problems according to pre-set goals, but also help them challenge and revise pre-set goals (Argyris and Schön, 1978 and 1996). So an enabling and controlling use of MCS can also affect balancing the tension between control and innovation role of MCS.

### **2.7.4 Organizational Strategy**

Internal consistency is considered to be one of the factors which affects the balance of different uses of MCS by ensuring the organizational strategy and priorities are well-communicated within an organization and clearly known by all of its members (Mundy, 2010). The common purpose makes managers use and align control systems in a consistent way to achieve the same goals. Abernethy and Chua (1996) describe how control systems operate as a package when they are internally consistent. Organizational vision and strategic priorities facilitate clear and coherent approach and decides organizational control use (Henri, 2006; Simons, 1994). Seal's (2001) study demonstrated how the change from

focusing on short-term financial performance to long-term strategic coherence shifts the use of MCS in the organization.

### **2.7.5 Organizational Structure**

Organizational structure is perceived as “*a set of role prescriptions and values for the entire company*” (Herath, 2007, p. 895). Organization structure is a fundamental element of organizational control as it shapes the responsibilities and accountabilities of organizational members, and it is formed to entrust and empower employees to act within their responsibility (Chenhall, 2003). As there are different forms of organization structure, they can be designed to give centralisation or decentralisation authority, which may hamper or facilitate organizational learning (Johnson, Manyika and Yee, 2005; Kloot, 1997). Therefore the design of organizational structure has implications for the focus of MCS. The organization with a vertical structure emphasizes traditional bureaucratic and hierarchical control, while those with a flatter structure emphasizes informal communication, coordination and decision making processes; horizontal relationships rather vertical relationship (Coopey, 1995; Otley, 1994). Thus the design of organizational structure and how flexible it is can be seen to reflect organizational capability, which plays an important role in influencing balance of tensions.

### **2.7.6 Information Systems and Communication Channels**

Otley (1999) stated information systems and networks are essential to MCS. Different kinds of information need to be transferred and used for different purposes (Ferreira and Otley, 2009). Feedback information is used to facilitate corrective activities and feed-forward information is used for encouraging learning action. Hierarchy structure blocks



and restrains communication channels and information transfer, and flat structures facilitate the flow of communication and information transfer. The Viable System Model (VSM) makes the communication links explicit between the key control systems, and LOC recognizes the importance of communication channels, but it does not specifically explain the communication patterns within control systems (O'Grady, Rouse and Gunn, 2010). Therefore, it is unclear how communication channels can be used to coordinate control system as a whole package, and how they can be used to balance the influence of each other to provide appropriate channels to control and facilitate communications. Management information systems can provide environmental and managerial functioning information, and information systems can be designed to facilitate or restrain the information flow and communication, so it has become an essential part of overall organizational control (Herath, 2007). Thus, communication channels and information systems are related to the tension between different roles of MCS.

### **2.7.7 Culture**

Culture is known as an essential component of overall organizational control, which is used to regulate employees' behaviour; it helps frame the specific character and determine employees' role participation, and it is also used to interact with organizational structure and other control systems in a two-way relationship (Henri, 2006). Schein (1993) perceived organizational culture as a pattern that affects and corrects organizational members' beliefs, thinking and their way of doing things in order to solve the problems of external adaption and internal integration. In addition, culture control can be used in promoting different values within an organization, innovation value and control value culture (Henri, 2006). Hierarchical culture emphasizes tight control, structured communication channels and restricted information flow, so it promotes bureaucracy,

productivity and stability and focuses on control value. While, innovation culture emphasizes loose and informal controls, open communication channels and free flow information, which promote adaptability and creativity and focuses on flexibility value. In addition, national culture norms and values have also been considered in studying MCS design (Chow, Shields and Wu, 1999; Harrison and McKinnon, 1999). Different national cultures emphasize different values, and it has been suggested to examine the interaction between national cultures with control systems (Berry, 2009; Davila, Foster and Oyon, 2009). Therefore, both organizational and national cultures play a significant role in organizational control.

### **2.7.8 Leadership**

Leadership style is seen as a social influence, which can be an important factor in balancing tensions between different roles of MCS. Different types of leadership styles play different roles in organizational control. Leadership can influence employees' thinking and direct employees' behaviour, and so it can constrain or motivate employees' behaviour, give freedom and encourage employees to learn (Abernethy, Bouwens and Van lent, 2010). Moreover, leadership also influences the ways of communicating' for example, preferring formal communication through structured processes or informal communication and employees' involvement in decision-making processes (Yukl, 2005; O'Reilly and Chatman, 1996). So in order to achieve effective control, factors like accounting and formal controls must be combined with social-dynamic factors to enhance the employees' motivation. All of these factors are related to the control and innovative roles of MCS and balance of the tensions between the different roles of MCS, however how they can be transferred into organization's capabilities of balancing the tensions are unresearched.

## **2.8 Chapter Summary**

This chapter has reviewed the concepts of management control and MCS, their components, purposes and relevant models and theories. In summary, the literature review has indicated that a gap exists in MCS literature, especially in relation to the balance of the traditional control and innovative roles. MCS theories and frameworks are mainly derived from practices of Western organizations, there is a lack of empirical evidence in developing countries, especially in Chinese culture. So it is assumed that further investigation is needed to explore whether the existing MCS literature is adequately applicable for Chinese organizations. In addition, empirical studies in this area, especially in the context of Chinese cultural context are rare. The scarcity of literature and field research led to the choice of the research questions for this thesis. In addition to how organizations balance the tensions between the control and innovation roles of MCS, a number of influencing factors will be fully investigated. Finally, it is logical to find out how the case organization uses its capabilities to balance the tensions. Coherent with the research question and objectives developed from the literature review, the next chapter will provide specific research design to answer them.

## **Chapter Three**

# **Research Methodology and Methods**

### **3.1 Introduction**

The literature review chapter has examined the control and innovative roles of MCS and tensions between them from a theoretical perspective. This chapter explains the details of the research design, which is developed to answer the research question identified at the beginning of the Introduction Chapter. It begins with the overview of the research paradigm regarding my ontological, epistemological and methodological choices and underpinnings to this research. Based on the nature of the research question, I then explore my justification of why social constructivism ontological and interpretivism epistemological stances are chosen for this study, and follow this with a discussion of the qualitative methodology underlying inductive approach. Guided by my philosophical and methodological stances, the choices of data collection and analysis are explained. In addition, I further explain the details of why in-depth case study was employed for this research and how template analysis and Nvivo software were employed as data analysis techniques. To end this chapter, the ethical issues and limitations of the research methodology are discussed.

### **3.2 Philosophical Understanding**

Philosophy contains important assumptions about the way in which one views the world (Easterby-Smith *et al.*, 2008). Researchers' philosophical attitudes determine their

perception of knowledge and the process of knowledge creation (Saunders, Lewis and Thornhill, 2006). Philosophical stances are regarded as the foundation of the research which underpin, support and guide the research (Morgan, 1979), and it can help researchers to clarify, choose and form the proper design of the research (Easterby-Smith *et al.*, 2008; Saunders, Lewis and Thornhill, 2006; Crotty 1998)

Traditionally, distinctive differences exist between social science and natural science. The social scientists attempt to recognise “*the importance of the subjective human creation of meaning*” (Crabtree and Miller, 1999, p. 10). It focuses on understanding and interpreting human action and perception (Bryman, 2004; Gill and Johnson, 2002). Interpretations of human beings are complex and multiple realities exist (Crotty, 1998). According to Bryman (2004), when researchers attempt to make assumptions of reality, it is necessary to explicitly state their ontological concerns (*the structure of existence*) and epistemological considerations (*what should be regarded as acceptable knowledge*).

### **3.2.1 Ontology and Epistemological Foundations**

Ontology is about the nature of reality that researchers investigate (Guba and Lincoln, 1994). It is associated with the attitude of the researcher to the nature of reality (Collis and Hussey, 2009). Ontology assumption reflects how researchers make sense of the world (Crotty 1998). Ontology concerns the structure of existence (Cresswell, 2007). According to Crotty (1998), there are three different ontological positions, namely objectivism, subjectivism and constructivism. Underlying the different assumptions of ontology, meaning can be discovered from either the objective truth (objectivism) or the imposed subjective meaning on objectives (subjectivism) (Bryman and Bell, 2007; Gibbs, 2007).

The third alternative ontology position is called constructionism, which maintains that meaning is constructed by individuals and groups. Constructionism (also referred to as constructivism), as an ontology position asserts that *‘social phenomena and their meanings are continually being accomplished by social factors’* (Bryman, 2004, p.17).

Constructivists believe that the world can be in existence via the interaction between the subjective and objective (Crotty, 1998). The realities are multiple, and socially constructed by individuals who attempt to make sense of their lived experience (Guba and Lincoln, 1994). Constructionists try to identify and share these kinds of realities through understanding and perceiving peoples’ life experiences. A constructionist researcher is actively involved in the research process and always presents a specific version of social reality (Delanty, 2005).

Epistemology concerns the question of what should be accepted as knowledge in a discipline (Guba and Lincoln, 1994). It deals with the nature of the knowledge and *“attempt[s] to explain how we know what we know”* (Crotty, 1998, p. 18). The purpose of doing research is to generate that knowledge. The central debate of epistemological consideration is *‘whether the social world can and should be studied according to the same principles, procedure’* (Bryman, 2004, p.11). The epistemology stance affirms the importance of using appropriate research methodology to generate and build up new knowledge (Denzin and Lincoln, 2003). Historically, there are two major contrasting philosophical views on the epistemological stances, namely positivism and interpretivism (Bryman, 2004; Crotty, 1998).

Positivism is an epistemological position that advocates the social world exists objectively and externally (Easterby-Smith *et al.*, 2008) and that its properties should be measured through objective, empirical and analytic methods, rather than through human’s feeling

(Smith, 2003). Positivism accepts value-free researchers and it is detached from the researcher's interpretation (Bryman, 2004). It intends to fulfil the requirements of achieving generalizability and reliability by generating clear evidences and results (Stiles, 2003), therefore the research should be valid, replicable and generalizable in all situations (Gill and Johnson, 2002). So from a positivism perspective, the social reality should be studied by the application of the method of natural sciences.

Interpretivism, contrasting epistemology to positivism, considers that the social world exists internally and its properties should be measured subjectively (Easterby-Smith *et al.*, 2008). It doubts the application of the scientific research methods to the social studies. Crotty (1998, p. 43) describes how *"meanings are constructed by human beings as they engage with the world they are interpreting"*. Interpretivism requires the researcher to grasp and understand the subjective reality and meanings of social action (Saunders, Lewis and Thornhill, 2007; Remeyi *et al.*, 1998). Interpretivists view the subjective meaning in social science as people and institutions are varied from one to another. The multiple faces of realities require a different logic of research procedure, as Gibbs (2007, p.7) described: *"the world we experience arises from multiple, socially constructed realities"*. Johnson and Duberley (2000, p. 9) also addressed how *"there are a multitude of truths each of which vies for attention but none of which has more validity than any other"*, because the realities are *"culturally derived and historically situated interpretations of the social life-world"* (Crotty, 1998, p. 67). Taking an interpretative philosophy stand is impossible to replicate or generalise the research findings, but the researcher can provide interesting examples coming up with surprising new findings. For the researchers who adopt interpretivism, they are providing an *'interpretation of other's interpretations'* (Bryman, 2004, p.15).

Before moving to the philosophical practices that underpin this research thesis, the key characteristics of different philosophy stances are summarised in table 3.1.

**Table 3.1: Summary of Main Research Theoretical Perspectives**

Elements	Paradigms or philosophical assumptions or knowledge claims assumption	
	Objectivism	Subjectivism
	Positivism	Constructivism/ Interpretivism/
Ontology	Single reality and replicable	Multiple subjective realities
Epistemology	Objectivism knower and know are independent or dualism	Subjectivism The knower and known are inseparable
Axiology	Inquiry is value-free	Inquiry is value-bound
Generalizations	Time-and context-free generalisations are possible	Time-and context-free generalisations are impossible
Casual linkages	Real causes are present to or simultaneous with effects	Impossible to distinguish causes from effects
Logic	Deductive logic	Inductive logic: ‘grounded theory’
Methods	Quantitative methods	Qualitative methods

Sources: Adapted from Creswell (2003); Easterby-Smith *et al.*, (2002); Tashakkori and Teddlie, (1998); Lincoln and Guba (1985)

The differences of research philosophy stances have been outlined clearly in above table. The aim of the summary is to outline how epistemological considerations are different in the social science studies. In the next section, the philosophical consideration, especially for this research, is to be discussed.



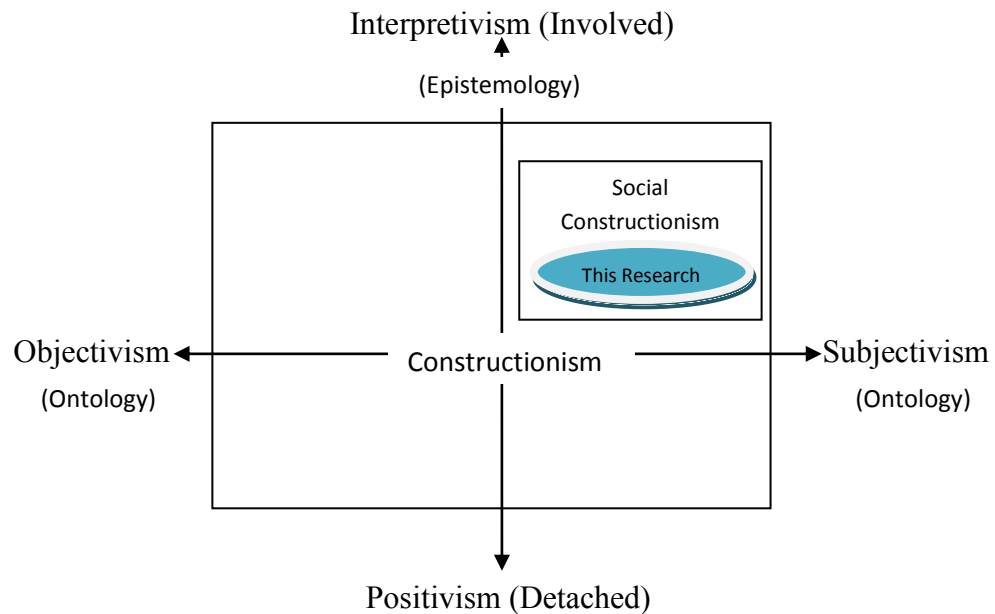
### 3.2.2 Philosophical Underpinning: Social Constructionism

Having discussed the three different ontological positions in section 3.2.1, the subjective and objective debate has led to a constructionism view which claims that meaning does not exist without objects (the truth). Nevertheless, creativity of meaning will not be reliable if it is created from no objects (Anderson, 1998). Constructionists advocate that meanings and objects are related to each other when generating knowledge. According to Fisher (1973), all objects are *made* and not *found*. In other words, meanings are not discovered but constructed (Crotty, 2003). How can meanings be constructed? Crotty (2003) argues that we are born in a world of meaning, which society reality is a function of shared meaning, and all meanings are socially constructed through social life. Culture guides human being's social behaviours and influence our experiences, and social constructionists believe that social realities are constructed continuously via an on-going social/cultural process (Gergen, 1985).

Having stated clearly in the very beginning of this research, the main purpose of this research aims to understand the phenomena of roles and uses of MCS in the context of Chinese business environment. Due to the unique characteristics of Chinese culture (both national and organizational cultures); it is believed that Chinese culture has a lot to do with functions. Chinese managers have their own way of constructing meanings and realities. Their embedded culture brings things into their views and directs their behaviours. MCS were originally developed from Western management systems. Considering the significant differences between Western and Chinese culture (Hofstede, 2003), it is assumed that Chinese managers construct management meanings in a different way to Western managers. By adopting a social constructionism paradigm in this research, it is believed that Chinese managers, either as individuals or as certain social groups, make sense of the

world in their unique way. Consequently, they construct social realities via the process of interpreting and reinterpreting of MSC phenomenon (see the figure 3.1).

**Figure 3.1: Visualisation of the Philosophical Landscape**



Source: Adapted from Johnson and Duberly (2000)

The above figure offers a visualisation of the landscape of philosophical stances where this research fits. The horizontal axis represents the ontology dimension, and vertical axis represents the epistemology dimension. By adopting a social constructionism philosophical stance, the socially constructed realities of the Chinese managers can be interpreted by the researcher with great awareness of the cultural believes and values.

Another reason why social constructionism ontology fits the nature of this research is in relation to me as a researcher. In recent years, constructionism includes the notion that '*the researchers' own accounts of the social world are constructions*' (Bryman, 2004, p.17).

As a researcher, I was born in China and lived in China for nearly 30 years. The embedded Chinese culture (language and believes) unavoidably has a huge impact in the way of

viewing the world. My knowledge of the world is socially constructed. My research activities for this study are constantly involved in interpreting.

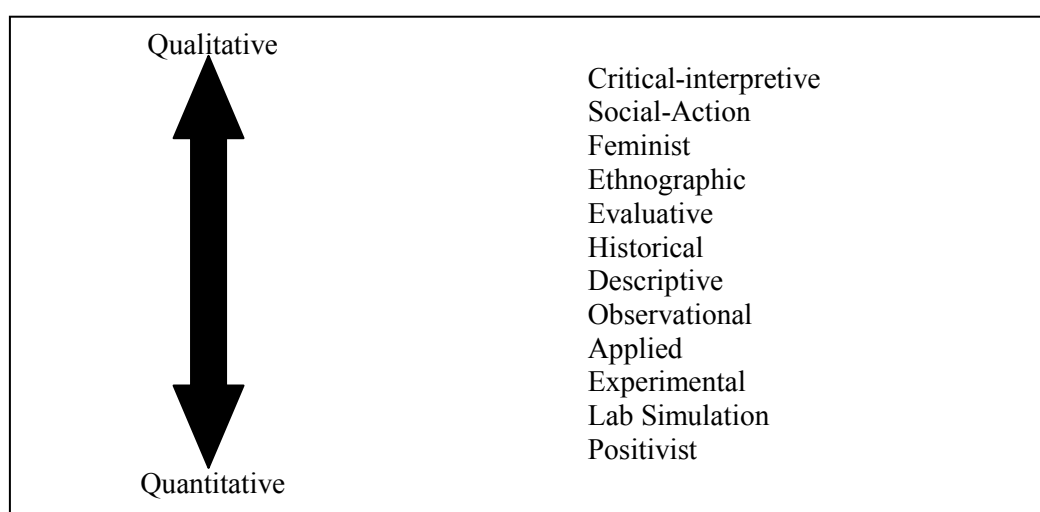
### **3.3 Understanding Research Methodology**

Methodology describes how the research can be conducted (Saunders, Lewis and Thornhill, 2007). It reflects the researcher's fundamental assumption of his or her philosophical paradigm (Johnson and Duberley, 2000). Methodology is about choosing the research strategy and designing the particular research methods used by the researcher (Crotty 1998; Guba and Lincoln, 1994). It involves the overall research process from the theoretical underpinning to the data collection and analysis (Hussey and Hussey, 1997). This section aims to evaluate the research methodology and methods underlying the social constructionism philosophy assumption which has already discussed.

#### **3.3.1 Evaluating Differences between Quantitative and Qualitative Research**

The major and fundamental difference of viewing social research lies between quantitative and qualitative research. There are various methods within each research domain, but they broadly fall within these two categories. Figure 3.2 provides a graphical representation of the research processes within the two domains.

**Figure 3.2: Research Approaches and Methodologies**



Source: Ticehurst and Veal (2000, p. 19)

Quantitative research is generally associated with numerical, deductive and positivist research (Crotty, 1998). It concentrates on large samples and relies on systematic processes of measurement based on the variables, which is a classic scientific and experimental approach; and it produces findings by means of statistical procedures and quantification. It aims to identify universal laws of nature to be used for accurately explaining and predicting the special phenomena (Cavana, Delahaye and Sekaran, 2001).

In contrast, qualitative research is normally used as a strategy for social research which focuses on the in-depth study of small samples of cases in order to develop the deep understanding of human behaviour and an interpretation of the meaning of people's experiences through the interaction (Flick, 2002; Gill and Johnson, 2002). Qualitative research views humans as complex and unpredictable, so it is associated with processes of interpreting peoples' understanding and making meaning in a social context (Heath 1997; Miles and Huberman 1994). Qualitative researchers are interested in people's thoughts, emotions, behaviours and experiences (Bernard and Ryan, 2010; Jankowicz, 2005).

Bryman (1998) summarized the main differences between quantitative and qualitative research (Table 3.2).

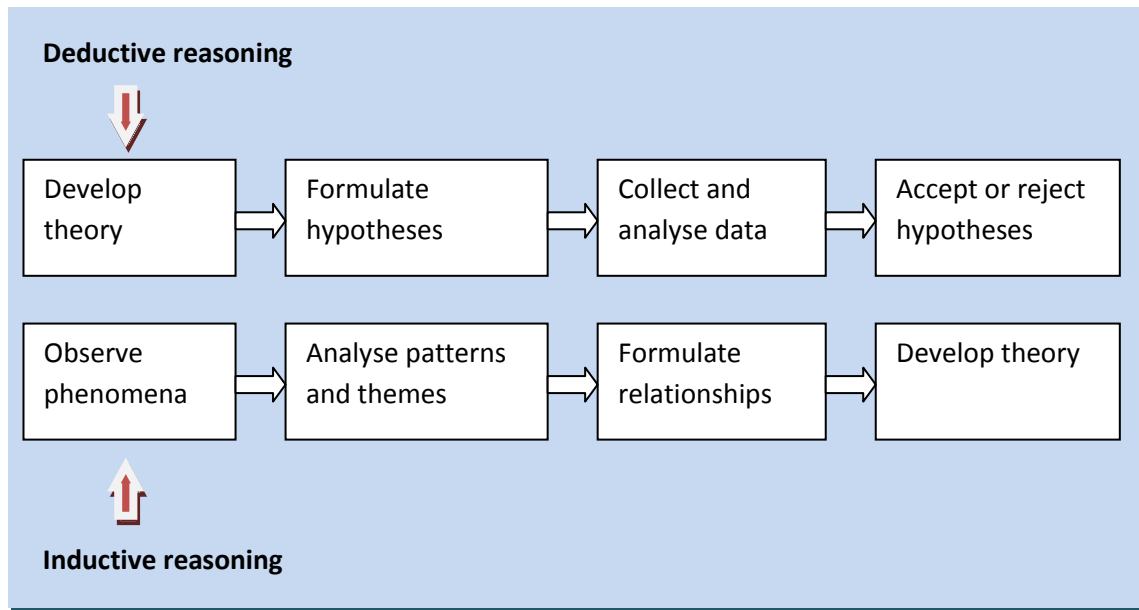
**Table 3.2: The Differences between Quantitative and Qualitative research**

	<b>Quantitative</b>	<b>Qualitative</b>
(1) Role of research	Preparatory	Means to exploration of actors' interpretation
(2) Relationship between researcher and subject	Distant	Close
(3) Researcher's stance in relation to subject	Outsider	Insider
(4) Relationship between theory/concepts and research	Confirmation	Emergent
(5) Research strategy	Structured	Unstructured
(6) Scope of findings	Nomothetic	Ideographic
(7) Image of social reality	Static and external to actor	Processual and socially constructed by actor
(8) Natural of data	Hard, reliable	Rich and deep

Source: Adapted from Bryman (1998)

Traditionally, the significant differences between quantitative and qualitative research can be distinguished by the logic of explanations, namely deduction and induction (Figure 3.3). Deduction describes that the logic of argument starts with the general and ends with the specific, based upon a large number of observations or statements; by contrast, induction follows the logic of arguments moving from specific to general statements based on the particular phenomenon (Gibbs, 2002).

**Figure 3.3 Deductive and Inductive Reasoning in Business Research**



Source: Cavana, Delahaye and Sekaran (2001, p.36)

As presented in the Figure 3.3, Cavana, Delahaye and Sekaran (2001) argued that quantitative research is generally associated with deductive approach, and qualitative research with inductive approach. Deductive approach begins with formulating hypotheses based on general ideas and theories, and then collecting the data to test or confirm them in order to develop general conclusions. On the contrast, inductive approach starts with detecting and analyzing the patterns based on the observations, and then formulates relationships in order to develop theories.

### **3.3.2 Overview of the Research Methodology in MCS Studies**

MCS, as an important research topic in management, has been studied by many researchers. Reviewing previously conducted studies, it is found that, to examine roles of MCS, a qualitative research approach with case study has dominated (Simons, 2000; Otley, 1999).

In the Table 3.3, the methodology and methods adopted in some previous studies in MCS area are summarised.

**Table 3.3: Summary of the Previous Similar Researches' Methodology and Methods**

Authors	Research objectives	Research methodology	Research methods
Kloot (1997)	Role of MCS for Organizational learning	Qualitative <i>Case studies</i>	Interviews
Batac and Carassus(2009)	Role of MCS for Organizational learning	Qualitative <i>Case studies</i>	Interviews and Observations
Marginson, 2002	Role of MCS for Strategic change	Qualitative <i>Case studies</i>	Interviews
Chapman, 2004	MCS for Flexibility and Efficiency	Qualitative <i>Case studies</i>	Interviews
Ditillo, 2004	Role of MCS for Knowledge management	Qualitative Case studies	Interviews
Frow, Marginson and Ogden, 2005	Tension between roles of MCS	Qualitative Case studies	Interviews
Chiesa, et al. 2009	MCS for Innovation	Qualitative Case studies	Interviews
Julia Mundy, 2010	Tensions between roles of MCS	Qualitative Case studies	Interviews

According to the summary, case studies, in particular interview and observation, have been widely used, underlying the qualitative approach. A qualitative approach enables researchers to analyze and classify the relations and links among control systems and explore organizational processes under organizational context (Frow, Marginson and

Ogden, 2005; Batac and Carassus, 2009). Klood (1997, p.58) explains that qualitative research with case study helps “*gain detailed understanding of how the MCS work in practice, rich descriptions of actual situations and a better context and factors which shape contemporary management practices.*” In addition, MCS studies often produce incomplete results because most of them have focused on one single system (e.g. finance control). As mentioned before, the use of MCS is strongly contextualized. Case study as an important approach can help identify the unique organizational aspect and provide rich insight to fully understand the phenomenon; therefore the case study is well suited to this type of research (Davila, 2008; Klood, 1997)

MCS vary across different companies, industries, and are strongly contextual, therefore case study remains the best way of exploring this phenomena and suits qualitative research nature well (Mundy, 2010; Ditillo, 2004). Based on the summary, it is clearly shown that the research related to the innovative role and tension between the control and innovative roles of MCS are also dominated by qualitative approach rather than the quantitative approach. Reviewing the methodology and methods employed in the previous studies certainly help the author make methodological choices for this research.

### **3.3.3 Methodological Choice**

As stated in the previous chapter, this research aims to explore the interplay between the traditional role and innovative role of MCS in the context of the Chinese banking industry. These Chinese bank managers’ managerial experience in relation to MCS largely relies on their interpretations of the control events they experienced in their daily life. Consequently, a qualitative approach turns out to be the more appropriate method because it is more likely to provide the richness of data in a specific Chinese context. In addition, qualitative



research may lead to a comprehensive description and understanding of the organizational processes (Morgan and Smirchich 1980).

Being consistent with the previous studies (Table 3.3), the qualitative research methodological approach adopted in this research can be used effectively to examine the tension between the traditional control role and innovation role of MCS. Moreover, this research also responds to the authors who suggested qualitative research is demanded in order to provide more insights into different uses of MCS and their interrelations (Mundy, 2010; Ahrens and Chapman, 2006).

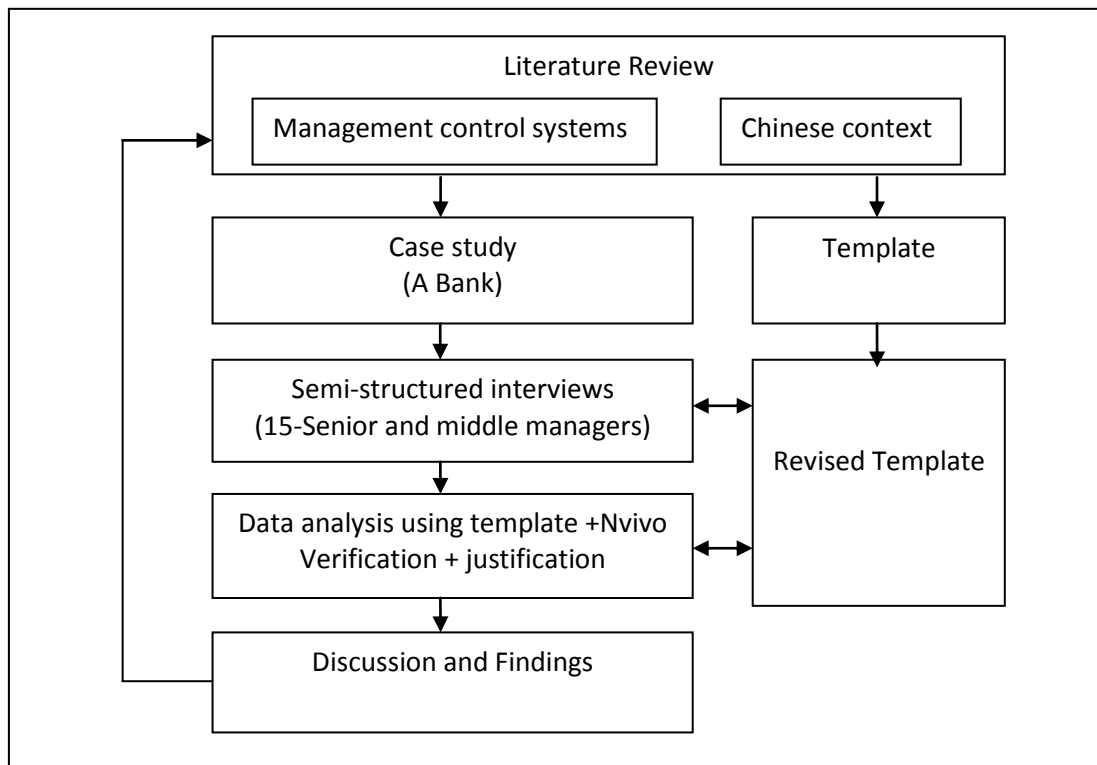
In principle, this research adopts an exploratory design due to its nature of qualitative methodological choice. Having mentioned in section 3.3.3, MCS is a dynamic and complex phenomenon, it is different from one organization to another; and varies between different industries. Consequently, there is no definitive constructs or standardised operationalization. One of the reasons is because management control involves important soft variables including organizational context, which is difficult to assess through explanatory studies (Chiesa *et al.*, 2009). The case study is used as it is a very powerful method for gaining a rich understanding of complex phenomenon (Eisenhardt and Graebner, 2007; Yin, 2003).

### **3.4 Designing the Qualitative Research**

Research design is guided by the research strategy, and is designed to determine the framework to guide how the research should be conducted based on the philosophical assumptions (Collis and Hussey, 2009). The main purpose of designing research is to make sure the research strategies are consistent with the research methods when answering the

research questions (Punch, 2000). Research design is based on the philosophical stance. It guides the researcher to choose proper procedures and tools to connect the research question to the data. Figure 3.4 represents the research design of this study.

**Figure 3.4: Research Design**



This research is designed to follow the process as illustrated in figure 3.4. According to a social constructionism philosophical stance, this research adopts a qualitative approach in order to interpret managers' understanding of MCS and experiences of using MCS within a Chinese context. Following qualitative approach, a single case study is chosen, and semi-structured interviews with 15 senior and middle managers are carried out in order to obtain deep and rich understanding of the roles of MCS. Template analysis as the qualitative analytical technique is used to analyze the qualitative interview data with assistant of Nvivo qualitative analysis software.

The research methods are the techniques and procedures for gathering and analysing the data (Crotty, 1998). Research methods for qualitative study are diversified, like observation, interviews, and the case study approach can be used in various ways; it depends mainly on the epistemological stance taken by researchers (Otley and Berry, 1994). Silverman (2009, p. 121) argues that “*the choice of the method should reflect an overall research strategy*”, so linking back to philosophical underpinning, Long and Johnson (2000) pointed out that the choice of methods depends on the philosophy stance. For this research, it requires an in-depth investigation of the management control practices in a different contextual environment (the Chinese organization). Naturally the case study is identified as an appropriate research strategy for collecting the data.

### **3.5 Primary Case Study**

#### **3.5.1 Understanding Case Study Approach**

Yin (2003) states that a case study approach is suitable when researchers attempt to answer ‘how’ and ‘why’ questions, and when the research requires an in-depth investigation into complexities, processes, linkages and conflicts (Marshall and Rossman, 1995). Further, Yin (2003, p. 13) confirms that the case study as a research method would “*involve an empirical investigation of a particular contemporary phenomenon within its real-life context and have been associated with process evaluation*”. Flick (2002) supports the view that case studies could be applied to collect empirical and detailed data to gain the in-depth insight into organizational knowledge and practice. It suitably applies to the phenomenon which are not well understood and contextually contingent, and the data is sensitive and not publicly available (Ferreira and Merchant, 1992), or there is a need to include multiple sources of data, such as observation (Yin, 2009). Therefore, a case study approach is

capable of including multiple sources to provide the depth of information required, which allows a researcher to understand the particular phenomenon, process and deep insights.

A case study approach also has limitations. To obtain the depth of information, it requires intensive amount of data, so it is normally a time consuming exercise. Also, as it is usually only based on a small number of cases, it often lacks generalizability (Yin, 1994).

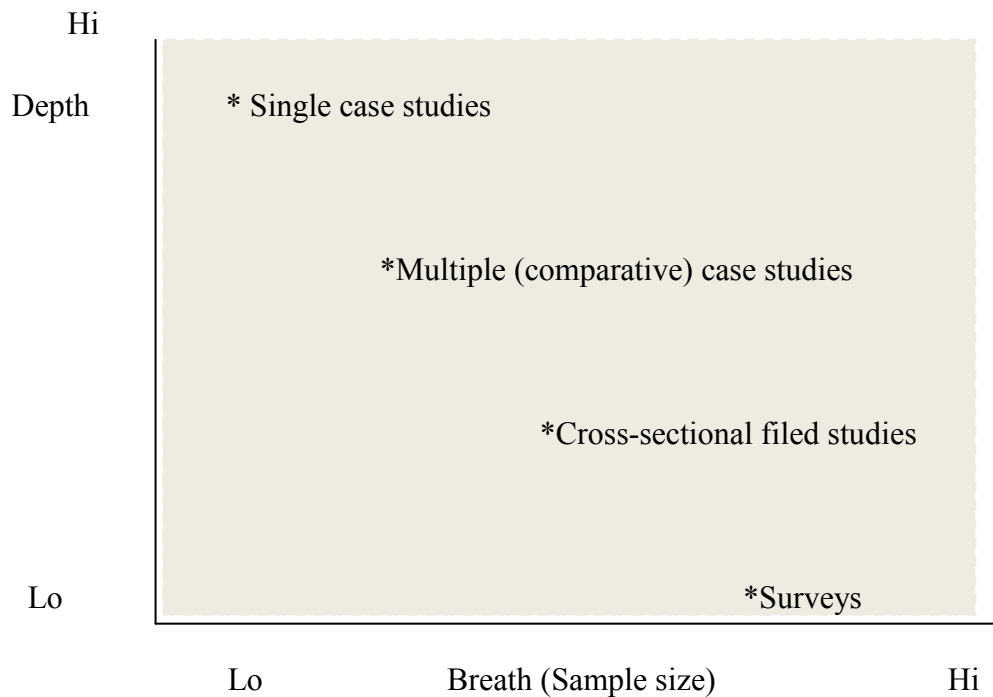
According to Yin (1989), three types of case studies can be used: exploratory (answer the “what” questions); descriptive (answer the “how many” and “how much” questions) and explanatory case study (answer the “how” and “why” questions). In order to answer largely ‘how’ questions, an exploratory, qualitative case study research strategy is normally applied. An explanatory case study aims to explore the rich details of peoples’ experiences rather than derive statistical significance from a randomized sample (Norman, 2001). Yin (1994) also identifies four types of case study designs: Holistic single case, which covers a single unit; embedded single case, which investigates a number of units per case; holistic multiple case studies, which involve several cases of each unit within different cases; and embedded multiple cases studies, which include several cases of a number of units within each case.

According to Ghauri *et al.* (1995, p. 93):

*“A single case study is appropriate when a particular case is critical case and when we want to use it for testing an established theory (and)... when a single case is an extreme or unique case (or)... when is revelatory”.*

A single case study enables the researcher to study the in-depth details of a particular phenomenon within the research context, thus a single case study method was employed in order to facilitate an understanding of the roles and uses of MCS within a single organization (Birnberg, 1999; Otley, 1999; Ahrens and Dent, 1998; Hopwood, 1983).

**Figure 3.5: Methods of Measuring Dimension of Breadth and Depth**



Source: Lillis and Mundy (2005, p.123)

The figure 3.5 presents the different methods of case study according to the breadth (number of observations) and depth (of each observation) dimensions. Single case studies are in the low breadth, high depth quadrant (Lillis and Mundy, 2005). It shows that single case study provides great in-depth insights comparing with multiple-case studies and surveys.

In the research, in-depth single case study was employed, the method of single case study provides distinctive and in-depth insights and facilitates multiple methods to explore specific phenomenon (Yin, 2009). Single case study as a powerful research method allows the researcher to explore and understand of complex issues. Conducting a holistic in-depth investigation through single case study enables researchers re-examine the past events through different range of detailed sources, such as reports of past studies, primary data etc. Reviewing the existing studies of MCS, single case study has been widely employed in this

research area. Many MCS researchers suggest that using single case as a special design to study MCS is an effective way to study MCS as a whole package due to the complexity of this social phenomenon (Ferreira and Otley, 2009; Chenhall, 2003; Langfield-Smith, 1997). Following the prior studies, the single-case study is regarded as the most appropriate research method for this study.

### **3.5.2 Using the Case Study**

As summarised in section 3.3.2, the case study approach from a qualitative perspective has dominated the MCS studies in the past decades. Jonsson (1998, p. 411) pointed out that management accounting research lacks empirical material and appears to “*be limited to quick survey studies which fit into the publication requirements of mainstream*”. The use of case study approach has been encouraged as a means to gain rich descriptions of actual situations, gain a better understanding of phenomenon and explain the deeper complexity of accounting and control practice within its organizational context by researchers (Davila, 2009; Henri, 2006; Lillis and Mundy, 2005). Due to the strongly *contextualized and the incomplete results* in accounting and control research, and the limited understanding of the relationship between different uses of control systems, the case study provides the best way to gain the insights of MCS practice (Langfield-Smith, 1997; Ferreira and Merchant 1992). Management accounting and control studies favour case study, because they are essentially social, highly contextualized, and changeable over time (Chenhall 2003; Ittner and Larcker 2001; Otley 2001; Chapman 1997).

Based on the social constructionism and interpretivism philosophical stances and qualitative research approach, plus taking in to account that the case study approach has been approved and that it remains the most suitable method for MSC studies in the past,

the author believes that the case study approach is well suited to the research objectives and it is the most appropriate data collecting method for this thesis. There are several reasons for this choice. First, the nature of this research is to explore the tensions between the traditional *control* role and *innovative* role of MCS. It involves the MCS process and conflicts. Understanding how these elements work in practice, and providing a rich description of the actual situation and organizational context are crucial. Secondly, how to balance the tensions between the control and innovative roles of MCS is a relatively new research area, and this area remains undeveloped (Mundy, 2010; Frow, Marginson and Ogden 2010, 2005). The case study approach enables the author to use multiple sources of data to investigate a wide range of control practice. Thirdly, this study aims to investigate the MCS in the context of the Chinese banking industry. To the author's best knowledge, how to balance the tensions between control and innovation within MCS has not been investigated in this context in prior studies. The single in-depth case study can be a powerful method to dig deeper in the new phenomenon and seek new insights of MCS practice.

### **3.5.3 Selection of the Single Case**

Traditionally, case study strategy has been criticised for having too small samples. However, Siggelkow (2007) argues that "*a single case can be a very powerful example*" (p.20). An in-depth case study is adequate for investigating a phenomenon within its real-life context (Yin, 2003). Also, as stated by Mason (2002, p. 136) "*the key issue for qualitative sampling is how to focus, strategically and meaningfully*". It emphasises the importance of purposeful sampling rather than random selection to expect to generate different results (Neergaard, 2007). Sample selection in this study followed the rules of 'not randomly picked but for good reasons'. The single case study undertaken in this

research project is a commercial bank, which is unique in the sense of its differences compared to the traditional Chinese state-owned banks. It is most the successful joint-stock commercial bank in China.

### **3.5.3.1 The Profile of the Selected Case Bank**

The case bank selected for this research is the only joint-stock commercial bank in the six largest banks in China; it is a highly successful multi-national financial organization and it has been grown rapidly since established. It has more than 780 operation offices and employs more than 40,000 employees worldwide. It is very profitable, with total assets above RMB 2.2 trillion Yuan in 2010, and it also earns a good reputation in China (The Peoples' Bank of China Annual report, 2010).

The bank takes customer service as its priority and strives to meet customers' needs; it pursues sustainable innovation and effective risk control in order to achieve balanced development and excellent performance. It is *the first bank* to introduce an integrated information platform in China, and also the first bank to adopt BSC and comprehensive control systems including internal control and risk control (China Economic Times, 2011).

### **3.5.3.2 The Reason for Choosing the Bank as the Research Case**

Before the final decision was made on the choice of the case bank, the senior managers from several banks were informally interviewed to gain general information about their MCS in each bank; two of them are state-owned banks, which only adopt limited and basic accounting control systems. The other two are joint-stocked banks. However, one of these just transferred from stated-own to joint-stock in a short period of time. Only the last



remaining bank is a joint-stock a commercial bank since established and has had comprehensive control systems in operations for years. Based on these informal interviews, it has been found that, compared with the state-owned banks in China, the adoption and implementations of MCS systems in commercial banks are more well-established than in state-owned banks due to some certain reasons, such as the form of organization, the size, regulations and policy issues.

This bank is well known in the banking industry for its reputation, innovative products and quality service, and capacity to respond quickly to new challenges. Its MCS are comprehensive, systemic and dynamic, and include different varieties of formal and informal MCS, which have been developed over a number of years from its own domestic and global best practices. These MCS used by managers are diversified and innovative in their efforts to achieve the organization's goals. Due to these factors, it was decided that this bank made an interesting and appropriate case organization in which to study the comprehensive roles and uses of MCS and the interplay between different roles of MCS.

The size of the case bank is relatively small compared with state-owned banks, but it is bigger than other joint-stock banks. As Collier (2005) argued, in a relatively small organization, making linkages between different forms of controls is more visible and easier to find rather than in a large and complex organization, in which multiple levels of management hierarchy and complex bureaucratic processes tend to hide informal practices.

Indeed, this commercial bank has been chosen precisely is because 'it is very special in the sense of allowing one to gain certain insights that other organizations would not be able to provide' (Siggelkow, 2007, p.20). In addition, this bank was chosen as a case study is due to its long-established MCS, as well as its embedded practical events. Finally, compared to

other state-owned Chinese banks, this bank has more freedom to control its control and management activities and events. Therefore, it is selected as one most of the most representative institutions in which to study the MCS process in the context of Chinese banks.

### **3.5.3.3 Access to the Researched Institution**

As Easterby-Smith, Thorpe and Jackson (2008) suggest, it is essential to gain access to the case organization through personal relationships and different kinds of association.

Considering the unique Chinese business culture, especially ‘Guanxi’ networks, the author realized that the easiest way to break constrains of accessing the researched institution was to use personal contacts rather than more formal ways (e.g. posting the letters, contacting the bank managers in person without pre-introduction by others).

The research institution was introduced by one of the researcher’s very close friend who works in a senior position at the People's Bank of China, the central bank of China. As the third party, this manager suggested a few banks based on his business relationships. He helped the author contact the directors of the banks and asked whether they would like to take part in this research. Several banks showed interest. After the informal interviews with managers in different banks and based on the reasons discussed before, this commercial bank was been finally selected as the case organization.

With the friend’s help, the author spoke to the director of the bank by phone the first time. However, after the researcher explained the details of the research and the data to be collected, the director showed hesitation because he was worried about the lease of some crucial information. He told the author that he needed some time to re-think it. After a few

days, the researcher called again. This time, the researcher explained explicitly again that all the ethical issues has been considered carefully. It was made crystal clear that the data collected from his organization would only be used for the purpose of this research.

Eventually, the director of the bank permitted initial access to the bank. Afterwards, a meeting was arranged at the director's office to discuss the participants for the interviews. After the meeting with the director, the details of formal access, including the access to different managerial levels' and departments' managers, as well as the internal documents, were finalized. And then the director helped the researcher to contact the different department managers to inquire who were interested in taking part in the research. Access to the organization and participants is often difficult because they may be not interested in being interviewed (Johnson and Duberley, 2000).

Chinese business system is embedded in the social and cultural setting, which is different from Western countries (Redding, 1990; Whitly, 1992). Considering the special feature of Chinese culture, especially power distance (Hofstede, 1984), it is difficult to access to the investigated organizations (Roy, Walters and Luk, 2001). In the best circumstance, the personal "guanxi" is normally used in the most cases to obtain qualitative data for the research. This is because researchers might find difficult to access the information that is controlled by the powerful persons or government. Using personal contact via 'Guanxi' networks in China is an appropriate approach to ensure the safety in terms of accessing into the organization. In addition, using these social capitals gives advantages to researchers to minimize the risks if the sensitive questions are asked. However, the researcher did realize that there are several limitations for this. First, the participants might be keen to provide positive information rather than revealing negative influences, especially if the Guanxi has been introduced by 'a powerful person' from higher lever

authority. Second, the participants can be afraid to express their opinions freely. By recognising these limitations, the researchers considered the ethical issues carefully. The details are explained explicitly in ethical section.

### **3.5.4 Semi-structured Interviews**

Interviewing has been identified as one of the most useful methods for conducting qualitative research (Saunders, Lewis and Thornhill, 2007) and as one of most informative source in case studies (Yin, 2003), because it can provide rich qualitative data including people's feeling, understanding and perception and useful to assess people's attitudes and values (Bryman, 2004). Interviews are also viewed as a means to construct and make meaning through interpretation of interviewees in collaboration with interviewers (Holstein and Gubrium's, 1997). Another advantage of interview as a data collection technique is to help researchers search the information which was not available or hidden and get deep and rich data from peoples' experiences (Fontana and Frey, 2000).

Interviews can be conducted in different ways, 'in-depth'; 'semi-structured'; 'un-structured' and semi-structured (Saunders, Lewis and Thornhill, 2007). Unstructured interviewing is free flowing conversation, there is no certain or fixed structure to follow and its main purpose is to explore the relevant factors in a broad area, so it is very flexible (Sekaran, 2003). On the contrary, a structured interview follows a fixed structure which is difficult for the researchers to add or change the questions, catch unexpected comments or seek explanatory information (McNeill 1990), so when conducting a structured interview, it assumed that the researcher knows what questions to ask to gain the data required.

Semi-structured interviews fall into a methodological middle ground, a mixture of set and spontaneous questions provides a structure to the interview, at the same time allowing the flexibility to explore new issues or surprising responses (Hussey and Hussey 1997). Semi-structured interviews are conducted with a fairly open framework which allows for focused, conversational, two-way communication (Saunders, Lewis and Thornhill, 2007). Giving the informant freedom to share opinions and perspectives is encouraged (Burns, 1998). Therefore it provides interactive and flexible structure for exploring the meaning of the interviewee's response to different phenomenon in order to gain significant understanding (Saunders, Lewis and Thornhill, 2007).

Semi-structured interviews start with more general questions or topics which are usually identified and extracted from a literature review, and then narrowed down to focuses on the specific details and issues (Bryman and Bell, 2007). So it can cover the questions on the list and be efficient for exploring open opinions and flexible for changing the focus on the particular issues during an interview (Bryman and Bell, 2007). Because semi-structured interviews are unstructured and open ended, they potentially provide a large volume of rich, but sometimes disorganized data (Jankowicz, 1995). Nevertheless, the semi-structured interviews help researcher shape the interviewees' perceptions in order to answer the designed research questions (Saunders, Lewis and Thornhill, 2007).

According to the discussion above, the structured and unstructured interviews are seen to be inappropriate for this research, because they are either to be fixed or too open, and semi-structured interview is flexible to change the structure and shift the focus based on the interest of the researcher and emerging themes. As the research topic was quite complex, encompassing control processes, relationships, conflicts and tensions, the semi-structured interviews allow the freedom and flexibility to open up the complexity and enable the

researcher to shift the focus on the key themes. Therefore semi-structured interviews were chosen in order to give the interviewees freedom to explain the participants' different understanding and highlight areas of particular interest as well as to enable certain responses to be questioned in greater depth.

#### **3.5.4.1 Interview Guide Development**

As this research employed the semi-structured interview as the main data collection method for the selected case, the interview guide is crucial to prompt the interviewees to reveal useful information (Manson, 2002). The interview guide is developed based on the literature review and the researcher's own working experience. It concentrates on four subjects: management control systems, uses of control systems, communication and information transfer, and culture. The issue of leadership emerged during the interviews. The questions are open-ended by designed in order to get more and rich details. In addition, the author found that the most important thing for success in using semi-structured interview is to design and refine the interview guides during the process of conducting the interviews. Being aware of this, the author kept adjusting the interview guide and modifying the interview questions during the interview process in order to get deep, useful and focused information for this research. One question was added to the first draft of the interview guide (question 17, see the final version of the interview guide in the Appendix C).

#### **3.5.4.2 Interviewees Sampling Strategy**

Saunders, Lewis and Thornhill (2007, p.314) suggest some factors for selecting interviewee samples including "*the purpose of the research; the significance of*

*establishing personal contact; the nature of data collection questions; and length of time required and completeness of the process*". Morse (1991, p.129) stated that the selection of sample needs to be chosen '*according to the needs of the research*' and selected informants are those who essentially have an intensive general knowledge or have such experience in the topic.

Senior managers play an important role of selecting MCS and the middle level managers play a crucial role in using MCS in different ways and identifying and generating new initiatives to achieve the organization's objectives (Ahrens and Chapman, 2004).

Therefore in order to capture a sufficiently wide and deep range of views, senior and middle managers who are involved in use of MCS were selected to be interviewed.

Travers (2001) argues that there is no certain request for the numbers of the interviews in case study; it all depends on the resources and time available to collect and analyse data.

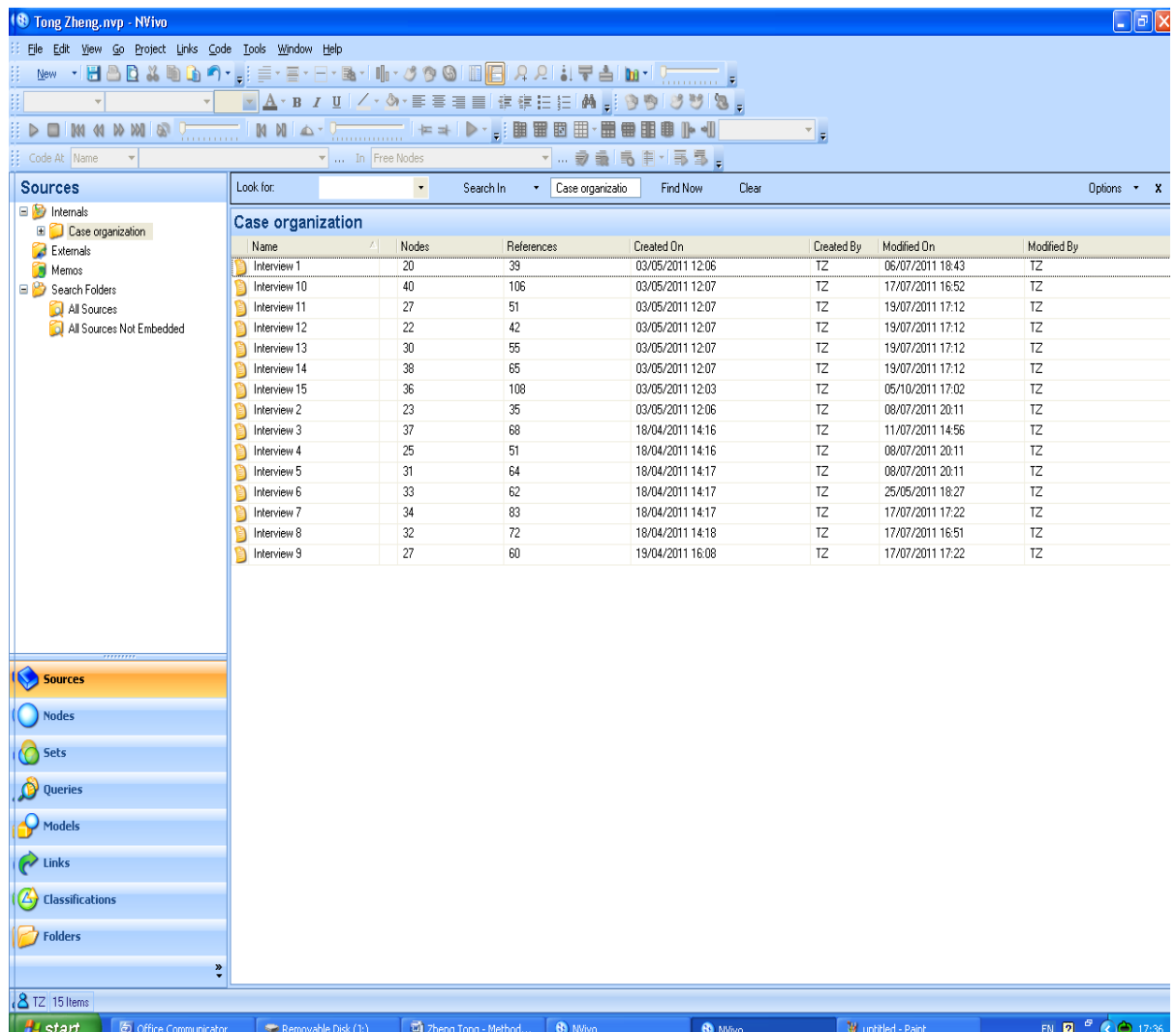
However, Lincoln and Guba (1985) and Strauss and Corbin (1990) suggested that the interview process should be carried on until reaching data saturation or redundancy level.

For this study, the researcher intended to conduct as many interviews as possible to obtain the broad views and opinions on the different roles and uses of MCS to increase the validity and reliability of research, so all the senior and middle level managers from the main branch and from sub-branch in different functional departments of the bank who are using MCS were interviewed.

Managers were interviewed from various organizational levels and functions; overall, 15 semi-structured interviews were conducted among the senior and middle managers who are involving in using MCS before the data became saturated. All the interviews' transcripts were saved in the separate files in Nvivo qualitative software, and in order to maintain

anonymity and consistency, they were named I1-I15 (interviewee 1 to interviewee 15, see figure 3.6).

**Figure 3.6: The Working Screen in Nvivo of Case Organization**



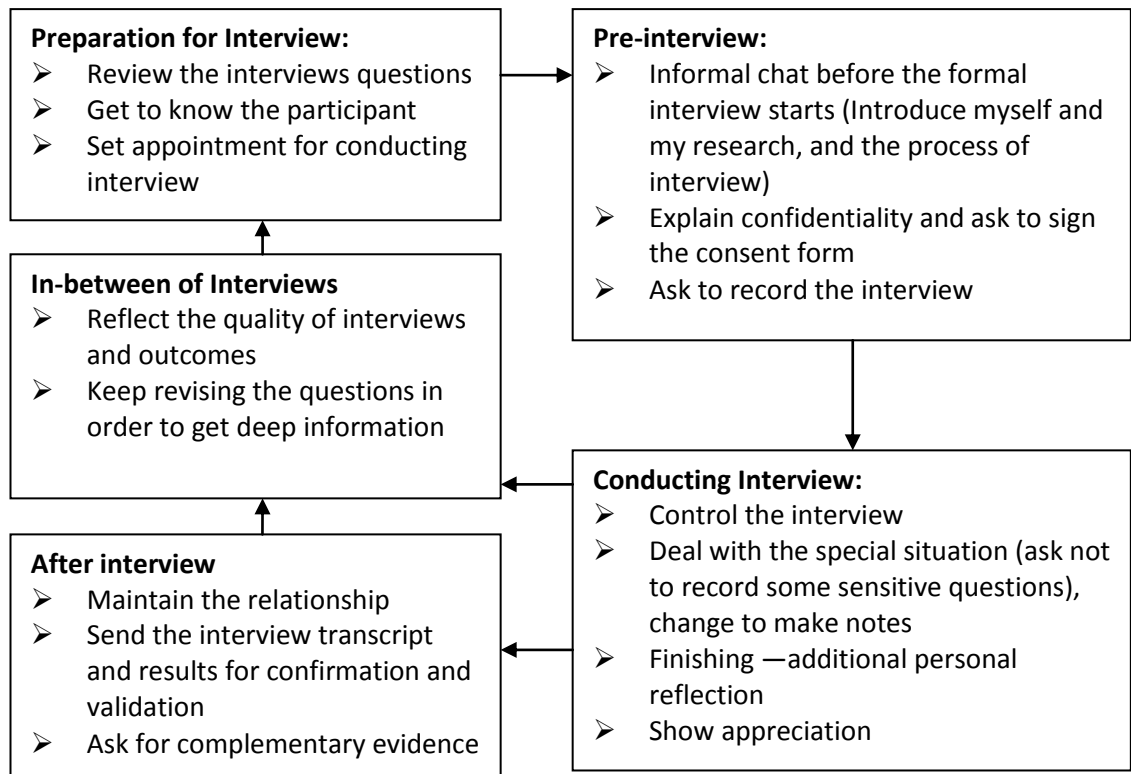
### 3.5.4.3 Interview Process

Kvale (1996) identified seven stages of interview process: formulating interview objectives; developing the plan; conducting the interview; transcribing the interview; analysing the interview data, verifying the results and presenting the outcomes. Bryman (2004) summarizes four steps of interview process: preparing interview; pre-interview; conducting



interview and after interviews. Based on the above interview process and actual interview process, this research follows five steps which show in figure 3.7.

**Figure 3.7: The Process of Interviews**



Source: Adapted from Bryman (2004) and Kvale (1996)

This research follows five steps to complete the interview process. As well as the four steps mentioned above, the researcher found the stage of in-between interviews also plays an important role in the overall interview process, it helps the researcher reflect the conducted interviews and revise the interview questions. All the interviews were conducted in the Chinese language rather than English, because the manager only can speak limited English and the author tried to avoid misunderstanding caused by language. A list of interviews' details is attached in the appendix.

#### **3.5.4.4 Details of Conducted Semi-structured Interview**

For the main research, 15 in-depth interviews were conducted. Among the 15 interviewees, five are female and 10 are male. The length of employment of directors and managers in the bank ranged from two years to eight years. For these managers, the length of time remaining in their current positions ranged from six months to eight years. The interviews took place in the working site of the chosen organization. Thirteen interviews were conducted in the managers' offices and two were conducted in the meeting room. The interviews, in average, lasted between one hour and two hours. Altogether, 15 interviews were conducted and the total length of interview time was 25 hours.

With permission, all the interviews were tape-recorded and transcribed. Prior to each interview, the purpose and usages of the recorded data were explained, especially, the confidentiality of the collected data was repeatedly emphasised. Interestingly, due to the nature of its confidential data, the deputy manager in the PF department did not agree to record the interviews at the beginning. After talking to her senior manager, finally she agreed that the interview could be record. After this interview, the author re-contacted all the participants and informed them in advance that the interview would be recorded only for analyzing purposes, and made them feel comfortable with the interviews. Two managers quit, due to worrying that their interviews were tape-recorded. The rest of the interviews went smoothly. Furthermore, to respect participants, detailed notes were taken when the interviewees did not want to record the sensitive parts or personal opinions.

The interviews were conducted in the Chinese language only because most of the interviewed managers speak limited English. Also, using the native language is easier for the researcher to communicate with the interviewed managers and have better understanding of their working experiences. All the interviews were transcribed

straightaway after they were finished. The author found that in-time transcription can help review the interview freshly, which is useful for reflecting the quality of interview and also adjusting the interview questions for the next interview.

### **3.5.5 Direct Observation**

For case study research, a combination of methods is often used because the phenomenon studies are complex (Tharenou, Donohue and Cooper, 2007). Multiple methods can allow triangulation for researchers (Yin, 2003). Apart from primary and secondary data, the author also used observation methods for part of the data collection for this research. The rationale behind the choice of this method is because:

*“when you want to know what people do, rather than what they say, they do, nothing beats watching them’ as you can produce a lot of useful information if you pay attention and take careful notes.”*

(Bernard and Ryan, 2010, p.23)

The author attended two sub-branch management meetings. One was a regular morning meeting, and another was a Friday performance review meeting. The daily morning meeting lasted only 15 minutes; its main purpose was to check attendance, praise the employees and improve their motivation to work. And it also provided an opportunity for employees to exchange information about their business and customers. At the end of the meeting, the managers also reminded employees some of the problems they need to pay attention to. The Friday meeting lasted about two hours, and focused on a summary of the whole week’s work. The managers tried to identify the problems they had and gather suggestions and new ideas to solve them. The issue they could not solve on the Friday meeting was to be reported to higher level management, and the final purpose is to make the plan for next week.

In these two meetings, due to the ethical concerns, the researcher was not allowed to record the conversations. However, observation notes have been taken. It was found the observations help the author understand managers' behaviours (such as the communication between the managers, as a controller, and the employees) and organizational routines based on the data obtained from the interview and archival data.

### **3.5.6 Using the Secondary Data**

Two types of data were collected for this research, including both primary and secondary sources. In comparison with primary interview data, the secondary data collection consumes less time and efforts, and can be used to set a background and complementary to primary data (Saunders, Lewis and Thornhill, 2007). To support primary data collected from interviews and observations, the secondary source of data obtained archival documentation from the organization's internal documents. In the meantime, government official reports are also used to enrich the research background and help the researcher gain knowledge and understanding of organizational management practice deeply.

Organizational objectives and strategic plans are available in the company's annual report and on its official website. The internal documents used for this research included BSC and performance measurement. All of these are used with the permission of the case bank. Overall, no obvious restrictions were placed on access to the documentation of the case bank. However, Easterby-Smith, Thorpe and Jackson (2008) mentioned a disadvantage of using secondary data source is the uncertain quality of the data. In order to ensure the quality of the secondary data, the author paid extra attention to the reliability of the used sources.

### 3.6 Method of Data Analysis

#### 3.6.1 Template Analysis

Data analysis plays a very important part in the case study, because it reduces raw data and transforms them into meaningful findings (Patton 2002). Compared with the quantitative analysis purpose of reducing the data in order to make them countable, in contrast, qualitative data analysis is flexible and lacks structure, instead it focuses on the process in order to modify and change the codes (Bryman, 2008). It also concentrates on the way of managing and organizing the data in order to find the links and relationships, or build up the theory and conceptual framework (Gibbs, 2002). The qualitative data analysis process includes data reduction, classification, and interpretation (Yin, 2009; Miles and Huberman, 1994). Coffey and Atkinson (1996, p.15) described that: “*we produce versions of the social world through our data collection and our processes of analysis*”; Gibbs (2002, p. 3) also stated “*Qualitative analysis usually seeks to enhance the data, to increase the bulk, density and complexity.*” So qualitative data is generated from the social situation, and analysis process tends to be iterative, recursive and dynamic (Silverman, 2006).

There are various forms of analysis methods that can be used for analyzing qualitative data: content analysis, template analysis, narrative analysis and discourse analysis (Silverman, 2006). Template analysis has been used since the 1990s. This method was originally applied in healthcare research, and it has only recently been used in the management and business field (Waring and Wainwright, 2008). The template analysis method can serve interpretivism stance, because it “*can be used within a range of epistemological positions*” (Waring and Wainwright, 2008, p. 86). And according to Kaplan and Duchon (1988, p. 575), this marriage of template with qualitative research “*provides a richer, contextual*

*basis for interpreting and validation results*”. Template analysis has been accepted as the fundamental approach in this research because of the highly flexible characters, “*the template analysis is [a] more flexible technique with fewer specified procedures, permitting researchers to tailor it to match their own requirement*” (King, 2004, p 257). It can apply to large amounts of data and it “*works particularly well when the aim is to compare different groups of staff within a specific context*” (King, 2004, p. 257).

Template analysis is built up with a list of codes under the different main themes which identified in the data, and the structure of the themes presents the relationships among the themes and subthemes; the similar codes are then categorized into the different themes in the order of their degree of relevance (King, 2004). The structure of template is hierarchical, presented with higher and lower levels codes which are organized by researcher’s own judgement and decision, so the interpretation is influenced by the researcher (King, 2004). And “*the researcher will need to amend the list of codes during analysis as new ideas and new ways of categorizing are detected in the text*” (Gibbs, 2007, p.45). So the key feature of template analysis is that the template is revised as the analysis process goes on.

King (2004, p. 266) suggests that the assistance of computerization helps to resolve “*complex coding schemes and large amount of text, facilitating depth and sophistication of analysis*”. Therefore qualitative software Nvivo was used to code the data and to ensure that there was no selective choice of data in developing the study’s findings (Bazeley and Richards, 2000; Abernethy *et al.*, 1999).

### 3.6.2 Using Nvivo Software

Coffey and Atkinson (1996) argued that the appropriate textual management software should be decided by the combination of data type and methodological approach. Using computer-assisted qualitative data analysis software to analyse qualitative data is recommended by many researchers (Bazeley, 2009; Bandara, 2006); it makes the research analysis process efficient and systematic (Miles and Huberman, 1994), and it also makes “*qualitative analysis easier, more accurate, more reliable and more transparent*” (Gibbs, 2002, p 11). The functions of qualitative data analysis software are provided in table 3.4.

**Table 3.4: Types of Computer-assisted Qualitative Data Analysis**

Text retrievers – search for words or phrases
Text base managers –sort and organize data
Code and retrieving –support coding and reporting by codes
Code-based theory builder- coding and the ability to build conceptual strut rue and test hypotheses
Conceptual network builder – diagrams, concept mapping, chart

Source: Adapted from Gibbs (2002)

Nvivo software is designed to help researchers manage and analyse qualitative data (Bryman and Bell, 2007; King, 2004; Silverman, 2000). The basic function of Nvivo is to enable the researcher to keep good records of their ideas, searches and analyses, so coding is a central function. The key feature of Nvivo is to provide a variety of facilities to help the researchers examine the relationships in the text (Bazeley, 2007). And the main benefits of using such software are to provide a better way of managing data and ideas, which makes searching and storing the text and result more easier, provides an easier way

of handing data which means the codes and notes are available to retrieve easily, and provides a powerful tool to build a graphic model and report qualitative data (Bazeley, 2007). These benefits are delivered by different Nvivo techniques, such as text and phase retrievers, code, and code-based theory builders. The latest version used, Nvivo 8, provides a powerful tool to enable researchers to manage the qualitative data easily and see deep insights into multiple aspects of people's perceptions, behaviours, concerns and cultures. It improves the efficiency, accuracy and consistency of analysis. Therefore it can improve the quality of the work somewhat.

The limitations of using software for qualitative data analysis have also been considered (Bazeley, 2007; Gibbs, 2002). Firstly relying on the software data may distance the researcher from the paper-based data, and it may create the problem of manipulating the content of coded text (Bazeley, 2007; Gibbs, 2002). Secondly, only focusing on coding and retrieving from the database may ignore other kinds of data (Bazeley, 2007). Moreover, using the computer software for data analysis may mislead people's understanding of the purpose of analysis which is for interpreting, not for counting (Richard and Richard, 1998). The researcher is aware of all those advantages and disadvantages of using Nvivo software for analysing qualitative data, and in order to improve the accuracy and consistency of the data analysis and avoid a time-consuming manual approach, the researcher decided to apply this software.

### **3.6.3 Data Analysis Process**

The data analysis process is an important process in the overall research project. It is a complex process, which includes "*examining, categorizing, tabulating, testing, or otherwise recombining evidences, to draw empirically based conclusions*" (Yin, 2009, p.

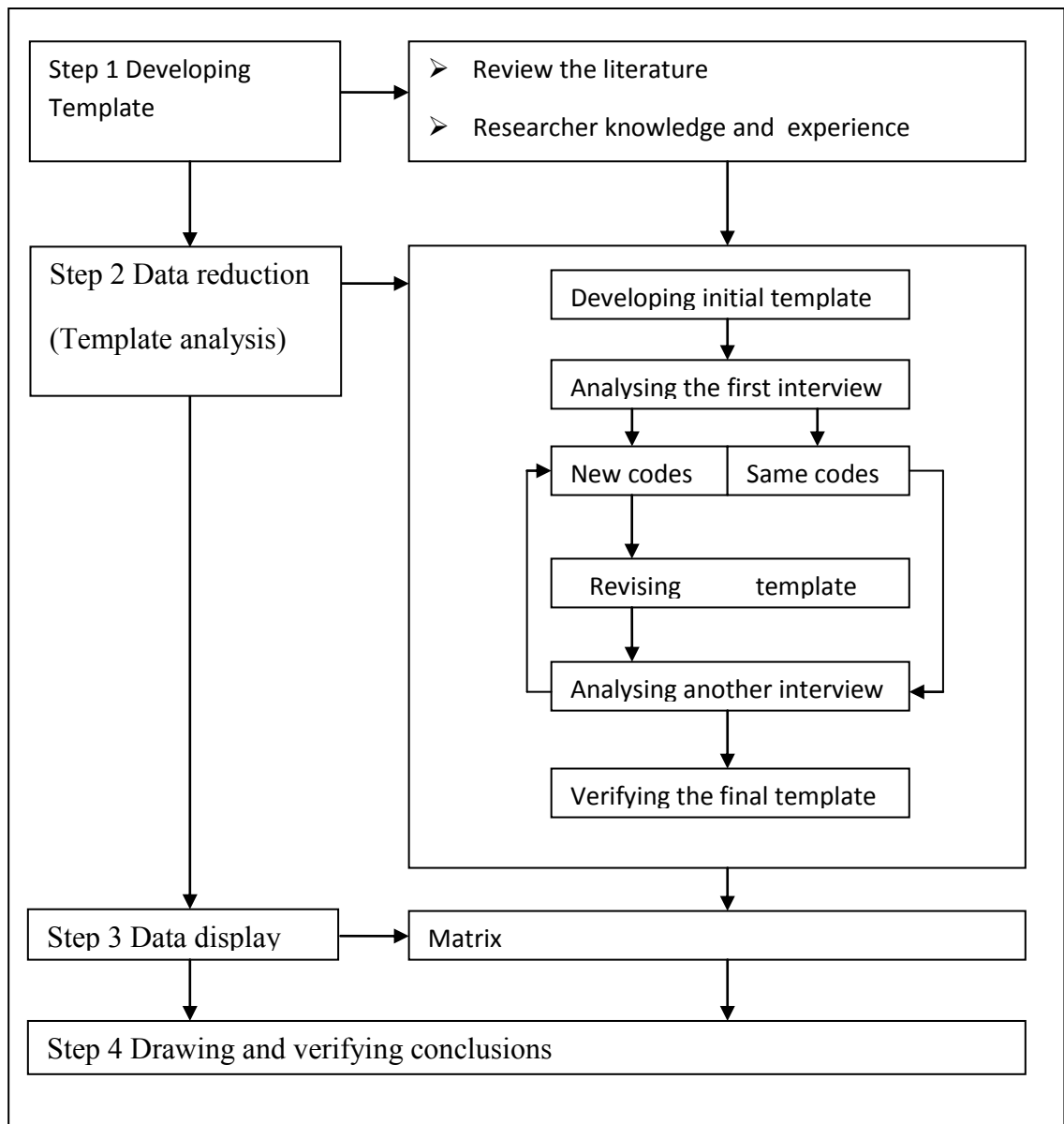


126), or can be simply described as a process to “*reduce the volume of raw information*” (Patton, 2002, p. 432) into the template for this research.

Miles and Huberman (1994) suggested a three-step strategy to analyse data, which features data reduction, data display and conclusions drawing and verification. King (2004) also suggests two steps to complete template analysis: developing the template in analysis of text, and interpreting and presenting the template analysis. A combination of the two is used to provide the details of data analysis in four stages: developing the template, data reduction, data display and conclusion drawing and verification.

Actually, the initial data analysis started during the data collection stage, the preliminary analysis and some initial thinking has occurred when collected the interview data. The initial data analysis helps the researcher generate the whole picture of the data obtained from each interviewee; and find out what has been missing, in order to change or add the questions and get deep and relevant information from the next interview, this process continued until the whole interview process finished (see figure 3.8).

**Figure 3.8 Data Analysis Process**

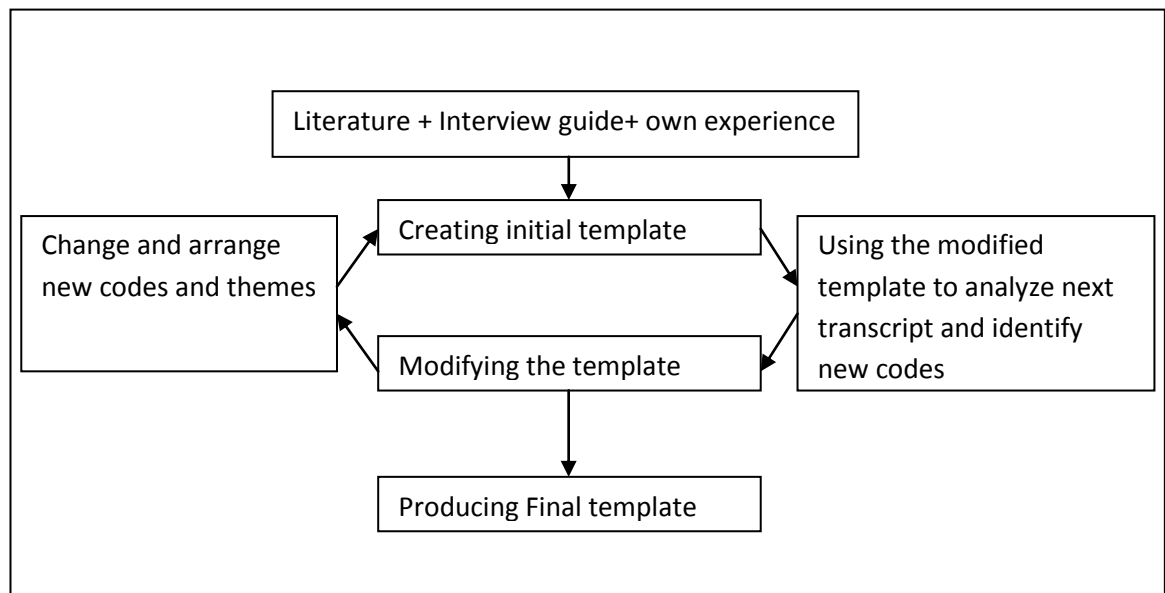


### Developing the Template

King (2009) summarized four steps to develop the template: creating preliminary coding and priori themes; clustering codes and constructing meaningful relationship; producing initial template; and modifying the template. The initial template was built on higher and lower themes and sub-themes in a hierarchy structure from pre-defined codes, which were derived mainly from literature, interview guides and researcher's experience. The initial template was revised as the analysis process got going, the additional themes were added

and the order of codes was changed as the data analysis proceeded. The process of developing template is illustrated in figure 3.9.

**Figure 3.9: The Process of Template Development**



The priori themes were developed according to the research objectives: theme one provides general information of the organization's MCS, and theme two attempts to answer the second research objective: how are the different roles of MCS are currently being implemented by the managers within organization? The third theme tries to answer the third objective: the interplay between the roles of MCS and how to balance the tension between the different roles and uses of MCS, and the fourth theme fulfils the objective of exploring the factors influencing the balance of tensions.

**Figure 3.10: The Initial Template**

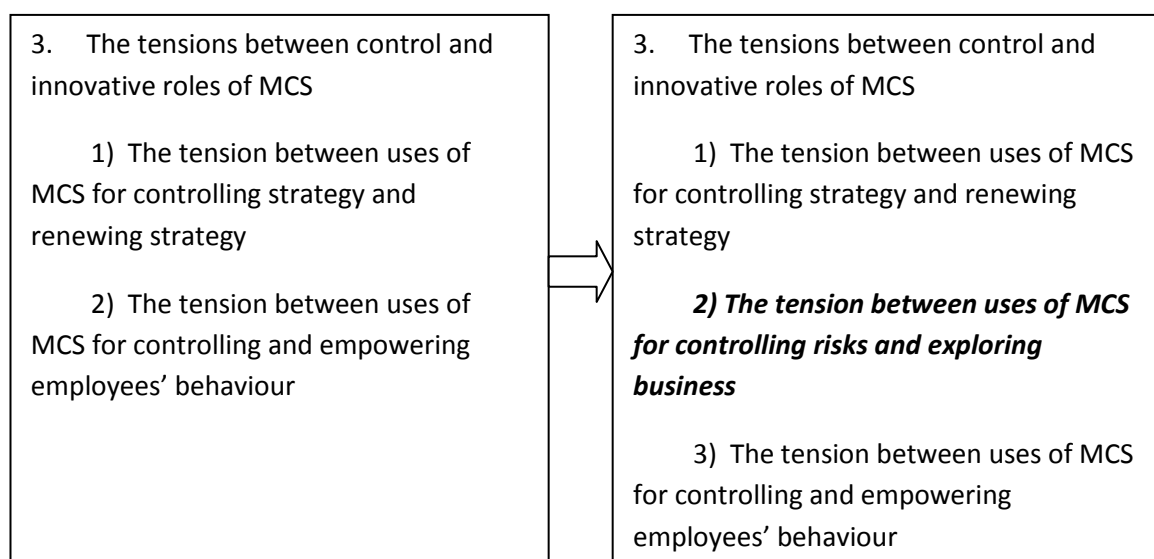
1. The MCS adopted in case organisation
  - 1) Managers' understanding of MCS
  - 2) Adoption of MCS
2. The roles MCS in case organisation
  - 1) Control role of MCS
  - 2) Innovative role of MCS
3. The tensions between control and innovative roles of MCS
  - 1) The tension between uses of MCS for controlling strategy and renewing strategy
  - 2) The tension between uses of MCS for controlling and empowering employees' behaviour
4. The factors influencing balancing the tensions
  - 1) The external factors
  - 2) The internal factors

Based on the above initial template (figure 3.10), the researcher searched the transcripts for text and codes that are relevant to the research objectives, then added them as new codes if they are not on the existing codes list. For example, one of the new codes emerged from the transcript under theme three:

*There is always contradiction, you have to explore new business and new products and expand market, at the same time you have to control the risks, and it is difficult to balance it, especially for the front line employees. (I6)*

From the managers' description above, a new tension has emerged as a new code under theme three of the tensions between control and innovative roles of MCS, and it is added to the initial template (figure 3.11).

**Figure 3.11: An Example of Developing the Template**



All the codes are revised and modified during the process of analysis. The new codes have been added, and the initial template has been finalized after analyzing all the interview transcripts. Figure 3.12 shows the final template for the data analysis.

**Figure: 3.12: The Final Template**

1. The MCS adopted in case organisation
  - 1.1 Managers' understanding of MCS
  - 1.2 MCS as a package
    - 1.2 MCS used by managers
2. Control role vs. innovation role of MCS
  - 2.1 Control role of MCS
    - 2.1.1 MCS for controlling strategy
    - 2.1.2 MCS for controlling risks
    - 2.1.3 MCS for controlling employees' behaviour
  - 2.2 Innovative role of MCS
    - 2.2.1 MCS for renewing strategy
    - 2.2.2 MCS for exploring business
    - 2.2.3 MCS for empowering employees' behaviour
3. The tensions between control and innovative roles of MCS
  - 3.1 The tension between uses of MCS for controlling and renewing strategy
  - 3.2 The tension between uses of MCS for controlling risks and exploring business
  - 3.3 The tension between uses of MCS for controlling and empowering employees
4. The factors influencing balancing the tensions
  - 4.1 The external factors
    - 4.1.1 External environment
    - 4.1.2 Internal demand
  - 4.2 The internal factors
    - 4.2.1 Selections of MCS
    - 4.2.1 The way of using MCs
    - 4.2.3 Organisational structure
    - 4.2.4 Communication channels and information systems
    - 4.2.5 Organizational Culture
    - 4.2.5 Leadership roles

## **Data Interpretation and Presentation**

### **Data Reduction**

According to Miles and Huberman (1994, p.10), data reduction is “*the process of selecting, focusing, simplifying and transforming the data that appears in written up field notes or transcriptions*”. So the data reduction begins with a coding process, which is used to spot relevant codes and put them together into structured, relevant and meaningful themes (King, 2004). The data reduction continued throughout the whole data analysis process until all the data had been coded and the final conclusion draws. This process was carried out with the assistant of the qualitative software Nvivo version 8 and with the help of this software, it became easier to manage codes and themes rather than by hand.

### **Data Display**

The data display is “*an organized, compressed assembly of information that permits conclusion drawing and action*” (Milles and Huberman, 1994, p.11). So the purpose of data display is to help the researcher to display the data in visual or diagrammatical maps, charts or diagrams in order to reveal the relationships clearly between the themes in order to draw the conclusion in the final process of analysis and enhance the understanding of the research phenomenon (Punch, 2005).

The advantage of the matrix is to help organize the poorly-ordered text in an order to which is easily to analyse (Miles and Hunberman, 1994). The matrices were used in this research for displaying and analysing data (Nadin and Cassell, 2004). An example of data matrix is presented in the table 3.5 below.

### 3.5 Table Example of Matrix of Innovative Role of MCS in Theme Two

Innovative role of MCS	Total confirmed	Number of references														
		I1	I2	I3	I4	I5	I6	I7	I8	I9	I10	I11	I12	I13	I14	I15
Renewing strategy	12/15	4	3	2	0	0	1	0	1	1	2	2	2	4	3	4
Exploring business	14/15	2	3	2	0	3	2	3	3	4	4	1	1	5	3	5
Empowering employees	15/15	4	2	2	2	2	1	2	3	2	3	4	3	5	5	6

### Conclusion Drawing and Verification

The final stage of data analysis is to draw conclusions, which is to “*describe the meanings that emerge from the data which have to be tested for their validity*” (Miles and Huberman, 1994, p. 11). Ghauri (2004) indicated that qualitative researchers have difficulties in drawing conclusions, and also suggested that comparison can help draw conclusion effectively. By comparing the results from the matrix displays, the relationships and the tensions between the different uses of MCS have emerged, which helps draw the final conclusions. The data from the internal documents and observations have been used, as complementary source, to confirm the interview data.

### 3.6.4 Data Triangulation

Triangulation is to use more than one method to collect and compare the data in order to ensure the quality of the findings. It is a “*method of cross-checking data from multiple sources to search for regularities in the research data*” (O’Donoghue and Punch, 2003, P.



7). Moreover it can give more detailed and richer information to explore the phenomenon from different standpoints (Bryman, 2008). Triangulation adds additional credit to the research by using multiple sources of evidence through cross-checking process which enables a systematic and comprehensive analysis on the data and increases the credibility and validity of the results and findings (Yin, 2009).

Three sets of multiple sources were used in this research. First, the semi-structured interviews were conducted. In addition to that, direct observations were carried out during the meetings. Finally, the secondary data including all relevant documents in relation to this organizational are reviewed and re-interpreted in order to confirm the accuracy of the collected data. Using a comprehensive range of evidence has reduced chances of bias and making finding much more concise and convincing.

### **3.7 Research Evaluation**

*“If their research will always be coloured by their subjectivities, how can they produce ‘trustworthy’ research?”* (Rooney, 2005, p. 6), and how to establish the *“truth value”* (Miles and Huberman, 1994, p.278) of the findings is the key to ensuring the quality of qualitative research. There is a long history of debate about the subjective issues of qualitative research. It is often criticized of loose structure and subjective issues (Bryman, 2004). Nevertheless, this does not mean that qualitative researchers ignore the methodological rigour; it does not mean that qualitative research cannot have a scientific attitude (Robson, 2002). As a result, the evaluation of quality of the research is the most crucial step for qualitative research. This section is to evaluate this qualitative research by using appropriate criteria.

### 3.7.1 Criteria for Evaluating Qualitative Research

What makes a good qualitative research is always the focal point of qualitative research. Researchers often applied different criteria to evaluate quantitative research. For example, Denzin and Lincoln (1994) suggest internal validity, external validity, reliability and objectivity for evaluating the qualitative research. However, Morse, *et al.* (2002) argued that the criteria for evaluating quantitative research quality, such as reliability and validity, cannot be applied to qualitative studies because they have been criticized of lack of relevance in evaluating social research, and they cannot be used to evaluate constructivists (Guba and Lincoln, 1989). Some researchers suggested the criteria for evaluating qualitative research should be different and unique to the nature of the qualitative research conducted (Silverman, 2000; Lincoln, 1995). No matter what criteria could be, it is crystal clear that there is no single way of evaluating the qualitative research.

As the leading qualitative researchers, Lincoln and Guba (1985) proposed the trustworthiness as the way to demonstrate the quality. Lincoln and Guba (1985, p. 290) described trustworthiness is about how a researcher “*Persuades his or her audiences (including herself) that the finding of the inquiry are worth paying attention to worth taking account of?*” Underlying the trustworthiness, they further proposed another four criteria, namely credibility (Rather than internal validity); transferability (Rather than internal validity/generalizability); dependability (Rather than reliability); and conformability (Rather than objectivity). Lincoln and Guba (1985) argue that in order to achieve the trustworthiness of qualitative research, interpretations and conclusions should be checked for credibility, transferability, dependability and conformability in as many ways as possible.

Alternatively, Patton (2002) states that as qualitative research uses different philosophical and theoretical approaches, so criteria for judging quality of qualitative research can be different. He proposed five criteria: 1) criteria for traditional scientific research based on ground theory approach; 2) criteria for social construction and constructivism research; 3) criteria for artistic and evocative research; 4) criteria for critical change and action research; and 5) evaluation standards and principles for evaluation research. These five criteria can be used to evaluate different kinds of qualitative research. Patton (2002) also suggested that comparing original explanations with alternative explanations can increase the intellectual integrity. In the meanwhile, triangulation of data collection also can help the qualitative researchers to minimize the intrinsic bias.

According to Strauss and Corbin (1998), there are no universal evaluation criteria for qualitative research. The criteria are meant as guidelines. When considering what criteria to be applied, the rule is that qualitative criteria must fit the circumstances of the research. Reflexivity, according to Johnson and Duberley (2003), can be used to evaluate quality of qualitative research because it can make research process transparent. The reflexivity on epistemology approach and methodology and methods will be discussed in detail in the next section.

In fact, there is no consensus on quality criteria for qualitative research because there is no unified methodology or methods which can be described collectively as qualitative research (Anderson and Skaate, 2005). The qualitative research only can be evaluated by sets of frameworks and procedures for the purposes of establishing the effectiveness of research practices. As by trustworthiness, the details of the interpretation process can be explored and the internal consistency can be strictly examined. Therefore, this research

adapts trustworthiness (Lincoln and Guba, 1985) as evaluations criteria for this qualitative research.

### **3.7.2 Trustworthiness**

Trustworthiness, proposed by Lincoln and Guba (1985) is often used to evaluate whether the qualitative research is trustworthy. When considering the quality of the research, the credibility, transferability, dependability and conformability can be employed to examine the reliability of the research conducted.

**Credibility** of interpretations is the major concern of qualitative data analysis. Lincoln and Guba (1985) described that the credibility of the research is one of most vital factors in achieving trustworthiness of the research. Credibility is to answer the questions of how congruent between the finding and reality, how to match them, and how competently the researcher accurately recorded the phenomena (Lincoln and Guba, 1985). It also refers to how a piece of research develops and confidently presents in front of relevant audiences (Lincoln and Guba, 2000; Silverman, 2000). From another view, Burns (1998) states research credibility is to addresses the issue of whether the research methods are appropriate or not for addressing the research question. In this research, credibility was facilitated and enhanced by adopting and making the process of the methods as explicit as possible. And the trust and familiarity with participants was built through preliminary talking on the phone and meeting, formal meeting and contacts after meeting.

As Dey (1993, p. 222) stressed that “*We tend to make more evidence that confirms our beliefs, and pay less attention to any evidence that contradicts them*”, so the threats to the quality of qualitative research may arise in the process of analysis, such as biased

transcription and interpretation, and ignoring of negative events. In this research, each interview transcript was analyzed twice. In the first time, the researcher read the transcript through and then transferred the data into the computer to analyse them in the second time by Nvivo software. Doing this helped the researcher to minimize the researcher's own judgement and bias, and ensure that text has been coded in consistent and well-defined way to improve the quality of data analysis. In addition, Nvivo software makes it easier to be exhaustive in analysis and to check for negative cases. To ensure the credibility of the findings, the outcomes (the key themes emerged from the collected data) were discussed with the whole supervision team, including the principle supervisor, as well as the second and third supervisors by presenting some of the interview data to them. In some sense, this helped the researcher to enhance the accurate and appropriate data. Indeed, member checking has been a powerful tool to establish credibility (Cresswell, 2007).

**Transferability** is to make sure the findings of the data come from adequate data from participants, not from the researcher, and how transferable the finding is to other context (Lincoln and Guba, 1985). This is achieved by interviewing the different managers in different functional departments in the main branch and sub-branches, as many as possible. Moreover, there have been subsequent discussions with the participants to validate the data. And a summary of the findings was presented to each senior and middle manager for comments and to correct any factual errors. All senior and middle managers looked over the findings and accepted them without requesting any changes. This research is specifically contextual oriented, so it cannot be broadly generalized. However, it is argued that the outcomes could be applied to the similar research context or some certain research through appropriate adjustments.

**Dependability** refers to the reliability which addresses the ‘consistency’ or ‘repeatability’ of the research methods and techniques (Trochim 2001). To evaluate the repeatability of the qualitative research, Lincoln and Guba (1985) argue that, due to the nature features of the qualitative research, it is unlikely to arrive the exactly same results no matter how the thick description of the details of the research process. However, the researcher at least has to make sure that there are no contradictory conclusions. To achieve the dependability for this research, I tried to give as much research detail as I could. Nevertheless, it is argued that researchers with different culture backgrounds may draw different conclusions even through he/she follows the exact the same research process and accesses the same data I collected for this study. For example, a westerner researcher without a Chinese cultural background may interpret the same data with different meanings, as he/she does not wear Chinese glasses. In this sense, the dependability is not quite suitable for evaluating this research.

**Conformability** is to ensure the research findings are from the experiences and ideas of the informants, rather than researchers’ preferences and characteristics (Lincoln and Guba, 1985). For qualitative research, conformability is about how to reduce the effects of the researcher’s bias, to make stories confirmable and how a good relationship between the researcher and the researched had been maintain during the research process (Bryman, 2004) Miles and Huberman (1994) suggest the key criterion for conformability is to give clear reasons and explanations for adopting the particular approaches and methods in the research. Detailed philosophical underpinning, methodological description and data collection and analysis methods were provided to allow the observer to trace every decision and procedure which was made by researcher in this research. From data collection to the data analysis, I, as the researcher, tried hard to make sure that the interviewees’ voice was heard and demonstrated appropriately. Apart from the transcripts,

the findings of the research were also sent to the participants to ensure that my interpretation of their ‘minds’ was accurate and meaningful.

### **3.8 Ethical Considerations**

Ethical consideration is given to ensure there is no negative effect for anyone who is involved in the study, and ethical issues can be related to the subjective matters, as well as the methods and procedures (Punch, 2005). In this research, ethical issues may arise from the data collection from organization and managers. Punch (2000, p. 56) states that, in order to address the ethical issues, a researcher must demonstrate “*academic integrity and honesty, and respect for other people.*” Denzin and Lincoln (2000) proposed three criteria as a minimum for ethical considerations: 1) informed consent; 2) privacy and confidentiality; 3) accuracy. Similarly, Cooper and Schindler (2003) also suggested three ethical guidelines. They are to 1) explain the study benefits; 2) explain respondent rights and protections, 3) obtain informed consent.

Being fully aware of the relevant ethical issues, all relevant ethical criteria have been addressed and acknowledged in the process of this research. The author strictly followed the established ethical policy of Northumbria University at Newcastle. Ethical approval for this research was formally granted in April 2011 by the University Ethics Committee at Northumbria University. And before the data collection started, the Organizational and Individual Consent forms had been signed and collected, and examples are included in appendix of the thesis.

In this study, all interviewees who participated in this research were given the following information prior to the formal interviews:

- a) Explanation about privacy, confidentiality and ethical issues;
- b) A broad description of the research purpose and data collection process;
- c) the individual consent form to sign to assure anonymity and confidentiality ;
- d) the option to withdraw any time during the study and not to answer the questions if they do not want;
- e) an estimated interview duration;
- f) a choice of remaining the contacts for checking the transcripts and results;

The ethical considerations which emerged in this research can be categorized into two areas, the impact on the individual participants and on the organization. For individuals, some critical personal views were revealed (especially when discussing the political policies in relation to the external environment), and the interviewed managers asked not to be named. In addition, due to the fierce competition in the banking industry in China, the director of the organization considered the risk of releasing important information of the bank to its competitors; he required the application of anonymity to the collected both secondary and primary data. Referring to the potential ethical problems above, the researcher strictly followed the anonymity requirement made by director of the organization and individuals. The fictional names of the interviewees and organization were used in the process of data analysis and in presenting the findings and conclusions. Furthermore, the author promised the investigated organization that all the data were treated with care and stored safely in private disk. It is only used for the purpose of this DBA research and only available to the researcher and his supervisors. All collected data will be destroyed after the study completed.



### **3.9 Limitations of Research Methodology and Methods**

There are several potential limitations to this research which need to be addressed. First, as discussed in section 3.3.2 earlier, the adoption of a single case study gives rich and in-depth data and has dominated the prior MSC studies. According to the MSC researchers, it is suitable for investigating different uses of MCS and the complex relationships and tensions of MCS (Ahrens and Chapman, 2006). In general, it is criticised due to the small sample data restricting the generalizability of the research findings, so the findings should be considered critically (Eisenhardt and Graebner, 2007; Yin, 2003). However, the author tried to understanding multiple meaning constructed by Chinese managers from their manageable MSC experience.

Second, the researcher played a crucial role in making the choices in the process of data analysis. He constructed the reality together with the interviewees. Therefore the findings may have analytical and interpretative biases. However, these biases were minimised by making the processes of data collection and analysis explicit. Also, the researcher collected as many interviews as possible. In addition, as the data were collected in China, due to the difficulties of direct translation from one language to another foreign language, in order to avoid losing the original meanings of data, the researcher finally decided not to translate the full data from Chinese into English, but only the quotes used as supportive evidences in the finding chapters. It might cause minor bias due to the loss of some kinds of contextual data connections.

Finally, undeveloped personal abilities and skills of conducting interviews may cause the limitations at the very beginning of this study, particular the first few interviews. But it is believed that the bias caused by the researcher's weak interview skills have reduced

dramatically in the following stages as the researcher's research skills have been improved and enhanced during the research process.

### **3.10 Chapter Summary**

This chapter has discussed the adoption of the social constructivism ontology and interpretivism epistemology; and the choice of qualitative case study approach taken to this research. To explore how the managers understand and use MCS transparently this chapter also explains the process of gaining access to the data, collecting and analysing data. The credibility, transferability and reflectivity have been strengthened during the data collection and analysis process to improve the quality and trustworthiness of the research. And ethical issues have been considered to improve the transparency of the research. Finally the limitations of the research methodology and methods have been addressed and considered accordingly. In the next chapter the findings and discussions will be presented.

## **Chapter Four**

# **MCS in Chinese Banking Industry**

### **4.1 Introduction**

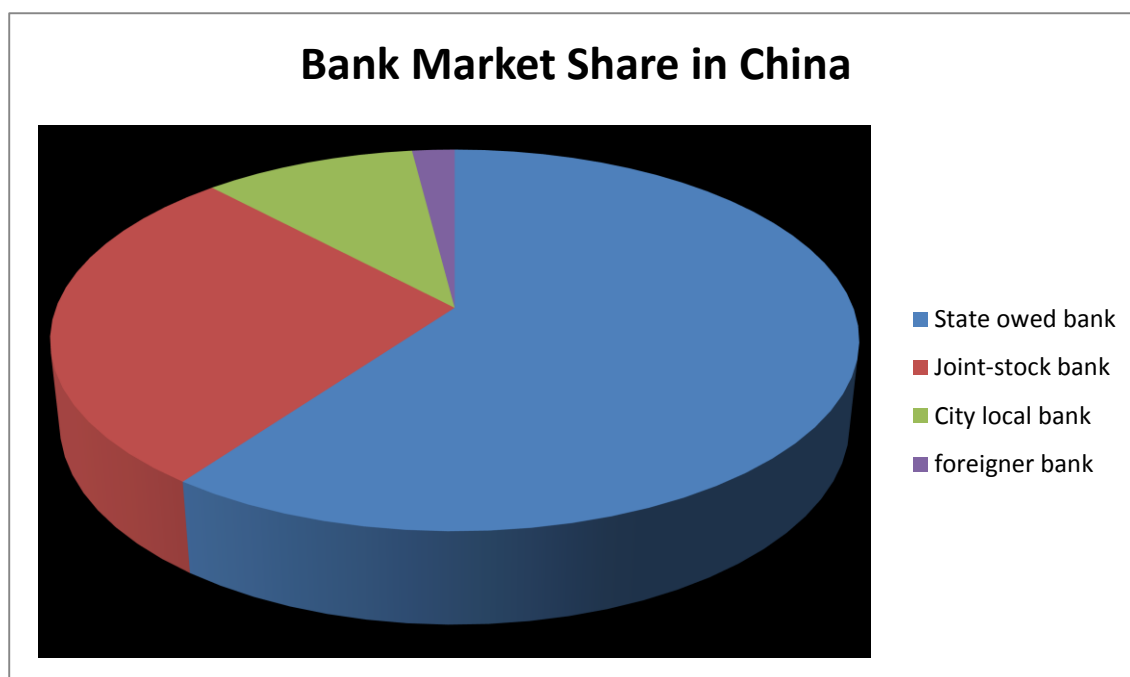
Having identified in the Chapter two, limited research has been conducted in the area of investigating how to balance the tensions within MCS in the context of Chinese culture, especially in Chinese banking industry. Before the discussions of the findings, this chapter provides general background information about application of MCS in Chinese banking industry to help readers to build up the whole picture of MCS implementation in Chinese business system. This chapter starts with the historical review of the bank industry in China and the introduction of Chinese bank MCS, followed by presenting the profile of the case bank undertaken for this thesis. Finally, this chapter highlights the culture impact on application of MCS in Chinese banks. It is hope that this chapter offers more contextual background of the investigated bank and setting the scene for the following data analysis.

### **4.2 Overview of Banking Industry in China**

The Chinese bank industry market is dominated by the “big four” stated-owned commercial banks: Bank of China, China Construction Bank, Industrial and Commercial Bank of China, and Agricultural Bank of China which are all controlled by government (China Economic Times, 2011). In the rest, the majority of banks are joint-stock commercial banks; other small local city commercial banks and the foreigner banks only

take small part in the Chinese banking industry. The figure 4.1 below shows the market share of the different banks: State-owned banks (60%), Joint-stock banks (28%), city local banks (10%), and foreigner banks (2%) (China Banking Statistics, 2010).

**Figure 4.1: Bank Market Share in China**



Source: China Banking Statistics (2010)

Before 1979, there was only one bank in China which was the People's Republic bank of China (the central bank in China). The four state-owned commercial banks were established after 1983 and took over the banking business from central bank. These big four stated-owned commercial banks are specialized in different industries: agriculture, construction, and the industrial and commercial industry. With the advantage of being supported by government, these four state-owned commercial banks are still the biggest players in China; however, their dominance is declining gradually. In 1987, the first joint-stock commercial bank, the Bank of Communications was established. Until now, there

were only 13 joint-stock banks commercial banks in China which then became an important and dynamic type of banking institution in China's banking sector. Indeed, their asset expansion and market share are keeping increasing. There are more than 100 city local commercial banks in China; however, they are only able to operate within their city where they originate. However since 2004, the China Banking Regulatory Commission has allowed them to expand outside of their city, and some city banks have started to merge and become large regional banks (China Banking Statistics, 2010)

The state-owned commercial banks' size is usually much bigger than joint-stock commercial banks and city commercial banks. They are mainly to fulfil the government's policy and interest; therefore, the management tends to be centralized and heavily regulated, because they usually have complex systems and large structure, and still use basic accounting control systems. Compared with state-owned commercial banks, joint-stock commercial banks aim to maximise shareholder's wealth and value, so they are market-orientated, and they usually have flexible structure, advanced technology and management (The Peoples' Bank of China Annual report, 2010).

The bank industry starts changing and opening to foreigner and domestic private banks when China was approved to enter the WTO. Thus, the state-owned banks market share started shrinking (China Economic Times, 2011), while the joint-stock commercial banks and city local banks started growing. In the process of joining the WTO, China's bank industry will be open to foreigner banks according to the agreement; therefore, the banks are facing intensive competition in term of the management and service. They will face up to the challenges which are not only from the domestic rivals, but also from foreign competitors. In order to survive, the Chinese banks must improve their competitiveness by promoting innovation, pushing forward the structure reform, improving the internal control

and enhancing the information technology. As the Bank industry is a highly competitive industry, the banks have to control the cost and risks, so the traditional control role is necessary; however, due to the fierce competition from domestic and foreign banks, the banks have to pursue innovation at the same time. Apparently the dual competing characters are very crucial for the banks, especially for the new emerging joint-stock commercial banks in China. They are at early stage and starting to grow up, so how they can manage and reconcile these two competing characters and transfer them into rapid growth is worth investigating, and there are only limited studies in this area (The Peoples' Bank of China Annual report, 2010).

#### **4.3 Application of MCS in Chinese Banking Industry**

The basic element for applying MCS mainly relies on both internal and external control environment according to MCS researchers; control environment has enormous impact on designing and selecting suitable control systems (Herath, 2007). In China, the control environment is diversified; practices of MCS application differ from one industry to another. It is universal recognised that there is no one ideal MCS model which fits all organizations.

Having mentioned before, the banking industry is high risk industry. It requires not only tight monitor and strict financial and risk control, but also the advanced techniques in supporting the system. In China, the MCS are relatively well developed in banking industry comparing with other industries. Even though the research in relation to MCS in Chinese banks is still at its infant stage (O'Connor, Chow and Wu, 2004).

According to the existing literature, MCS do not only rely on techniques, but also social and cultural factors (Herath, 2007). Due to unique Chinese national culture and business culture, Chinese organizations need to modify and tailor the Western-based MCS models before applying them into Chinese business system. Because Chinese banks are still at introduction stage in adopting MCS based on western MCS theories and models. Chinese MCS scholars argued that, in the past, traditional control model highly relies on the accounting controls in the Chinese banking industry, and so far only few banks in China adopt advanced evaluation and incentive control systems (O'Connor, Chow and Wu, 2004). Another study by (Chow, Shields and Wu, 1999) point out that national culture is associated with the design and use of MCS in China, Chinese culture, indeed, has huge impact, especially the Chinese “Guanxi” business culture. Their findings reveal that the state-owned banks tend to remain in the traditional control and maintain the hierarchy culture where the innovation role is prevented. Differently, emerging commercial banks tend to break traditional control and pursue the new control models to achieve both effective control and innovation. Therefore, the influence of the culture creates different forces in balancing the tensions between control and innovative roles of MCS in the two different types of banks in China. Reviewing existing studies in Chinese banking industry, it is for sure that the MCS studies coherent with Chinese banking institutions are very limited. Further investigation is required.

#### **4.4 Profile of the Selected Bank**

The reason why this organization was chosen as research site has been explained in detail in methodology chapter, and more details of case organization background are provided below in order to set the scene for data analysis and discussion. Case organization was established in 1987, which has grown from a small bank into an international joint-stock

commercial bank and becomes one of the six biggest banks in China. It has approximately 780 operation offices and more than 40,000 employees (The Peoples' Bank of China Annual report, 2010). The bank focuses on retail, intermediary business and SMEs' business. Its vision is to be best commercial bank in China, and it has been awarded as best retail and on-line bank in China. All the achieved success depends on its sustainable innovation, quality customer service, effective risk control, stable operation style and excellent performance (China Economic Times, 2011).

The case organization takes '*Change for you*' as its vision, and "*Service, Innovation and Stability*" as its core value concepts. It aims to achieve the sustainable and balanced development of profitability, quality, scale and structure through emphasizing innovation, risk control management and adaptable structure. Its brand advantages, social recognition and public influence have seen as elements of competitiveness. Its excellent performance was widely recognized and appraised by regulators and the society, which also help earn its reputation and image at home and abroad. The regulatory policies encourage innovation and the market environment with fair competition is being formed. The organization established the guideline of "*accelerating its reforms, optimizing its structure, upgrading its management and controlling risks*" (Case Organizational Annual Report, 2010). The organization encourages risk-controlled culture, steadily pushes forward the operation strategic adjustment and renews, and makes best use of its strength and advantages in technology, products and services. All those factors provide a sound economic foundation and external environment for its rapid development (Case Organizational Annual Report, 2010).



## **4.5 Chapter Summary**

This chapter has provided the details of background and history of Chinese banking industry, as well as brief review of application of MCS in Chinese banking industry. It is important to note that Chinese culture and the banking industrial context in China both have significant impact on the application of MCS. By presenting the profile of the selected case bank for the sing case study, it provide a more clear pictures to understand the justification about why this particular Chinese commercial banks has been selected. Building on this information, the next chapter will present the findings followed by the discussion based on the multiple sources.

# **Chapter Five**

## **Findings and Discussions**

### **5.1 Introduction**

As reviewed in chapter two, the contradictory roles of MCS have been identified and acknowledged in the existing literature. However, how these two roles have been carried out and how the tensions between them can be balanced in the organization still are not well explained, especially from the practical perspective. Many researchers argue that it is lack of empirical investigations on this phenomenon, especially under the different culture background (Mundy, 2010; Tsui, 2001; Harrison and McKinnon, 1999). Based on the collected data from the case study, the findings and discussions of this research will be presented in this chapter. Four emerged themes that developed from the multi sources (interview, observation and archive data) will be presented, including:

- Using MCS as a package
- Control role vs. innovative role of MCS
- The balance of tensions between the different roles of MCS
- The factors and capabilities of organization influencing the balance of the tensions

The above themes provided the in-depth understanding of the traditional control role and innovation role of MCS in the context of the Chinese commercial bank. Examples from the participants and interviewees' narrative quotes are used to illustrate each theme.

Furthermore, based on the findings from each theme, the subsequent discussions are conducted to compare the findings with the existing mainstream theories and frameworks

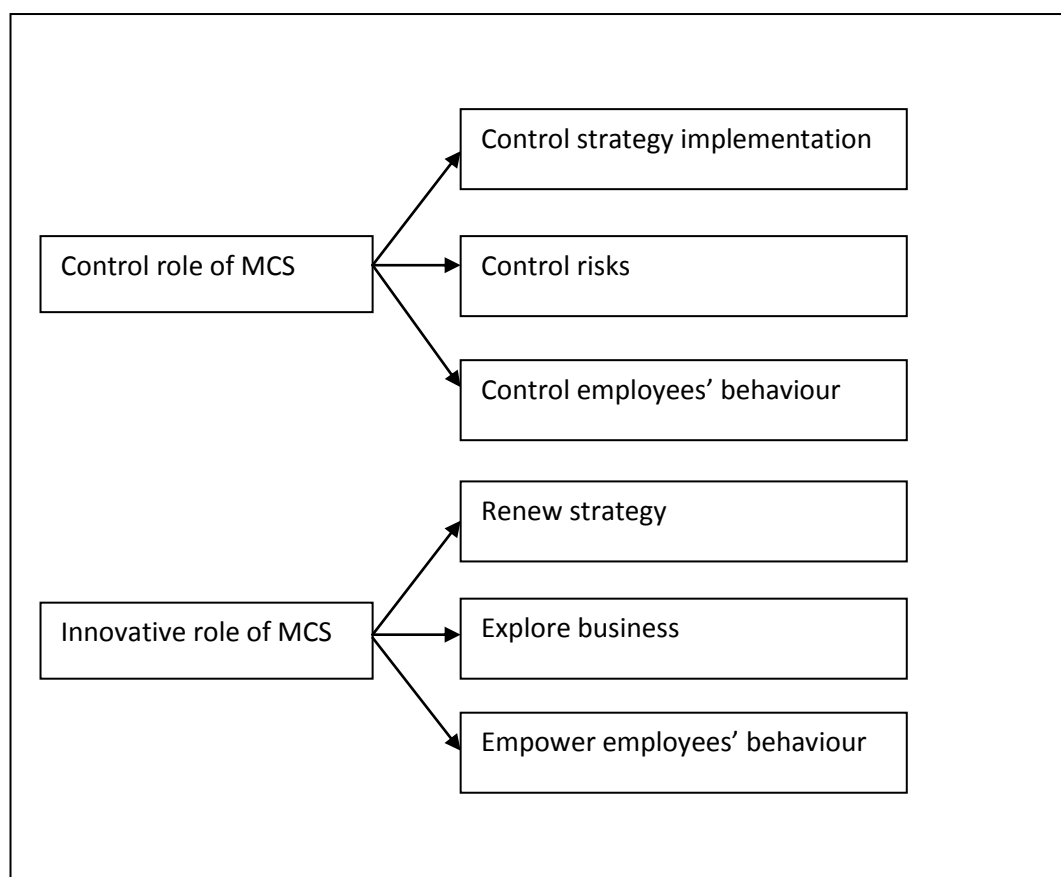
reviewed in the literature review chapter two. The linkage between the findings and theories are outlined accordingly. Some of the findings have been confirmed by the earlier researchers and some have been moving on to the new insights which extend people's both theoretical and practical understandings of the roles and uses of MCS in the context of Chinese bank organization. Overall, this chapter is organised around the four main themes in the following discussions.

## **5.2 Theme 1: Using MCS as a Package**

### **5.2.1 The Managers' Understanding of Roles and Uses of MCS**

As most of the MCS theories have been borrowed from western countries, MCS practice has not been well explained and developed in the Chinese management system. To understand this phenomenon deeply, the managers were asked to explore their perception of MCS and reflect on their experiences of using MCS. It appears the interviewed managers in different departments and different functional areas comprehend MCS in different ways, it is because the different control systems they use are designed for different purposes in the organization. There are two main roles of MCS that emerged from managers' narratives: control role of MCS and innovative role of MCS. Under the control role of MCS, there are three different uses of MCS: 1) MCS for controlling strategy implementation; 2) MCS for controlling risks; 3) MCS for controlling employees' behaviour. For the innovative role MCS, there are three different uses of MCS: 1) MCS for renewing strategy; 2) MCS for exploring the new business; 3) MCS for empowering employees' behaviour.

**Figure 5.1: Different Roles and Uses of MCS in the Case Organization**



This full picture of roles and uses of MCS in the case organization (figure 5.1) is developed and based on the managers' understanding derived from their narratives in table 5.1, and followed by the findings summarized according to the different themes.

**Table 5.1: Summary of Quotations for Roles and Uses of MCS in Case Organization**

Role of MCS	Uses of MCS	Quotations from interviewed managers
Traditional use of MCS	MCS for controlling strategy implementation	<p><i>MCS are used to implement organizational strategy and achieve intended goals. (I8)</i></p> <p><i>MCS are associated with setting the indicators according to the organization's strategy, and monitoring these indicators and strategic resources in order to carry out implementation and achieve the intended strategy. (I1)</i></p> <p><i>Every control system we use is to make sure we can complete our plan and achieve our targets; otherwise there will be no meaning for the controls. (I2)</i></p>

	MCS for controlling the risk	<p><i>MCS we use are all for identifying, measuring, monitoring and controlling the risks in the business process (I5).</i></p> <p><i>We use the risk control systems to create risk-awareness environment, and we use it for checking legality of the new business and all the contracts, and also for checking the legality of all the business operation processes to ensure our businesses meet the legal requirements from both outside and inside. (I8)</i></p>
	MCS for controlling employees' behaviour	<p><i>"For me, MCS are about how to evaluate, control and guide employees' behaviour." (I10)</i></p> <p><i>All the management practices and systems we are used to control organization activities and individuals' behaviour in order to achieve annual plan. (I11)</i></p> <p><i>MCS are the company's management systems using for corporate governance purpose and achieving management and profit targets, they are including human resource management, performance measurement systems, and they are all used for controlling employees' behaviour. (I13)</i></p>
Innovative role of MCS	MCS for renewing strategy	<p><i>We necessarily adjust the strategy according to changing situation or completion status. (I1).</i></p> <p><i>If we find out there is a big turn on the market, and we think we could not complete our targets, then we will change the plan, but we have so many branches and sub-branches, so we cannot change the indicators every month; we usually adjust every 3 months or half year time. (I2)</i></p> <p><i>Indictors are changing according to the very year's strategic focuses, the strategic adjustment and changes are carried out in every year, but it is not like we would not change anything in a short-term, we make some changes during the year as well. (I3)</i></p>
	MCS for exploring the new business	<p><i>There must have pressure, no pressure, no motivation; that is why we set the increased goals, if you do not set the higher goals, you will not have motivations to find the way to explore the new opportunities to complete the goals. (I11)</i></p> <p><i>The most important thing for us is to continuously explore the new customer's resources and new business opportunities in order to achieve our targets. (I14)</i></p>
	MCS for empowering employees' behaviour	<p><i>In my understanding, MCS are about how to measure and assess the performance and how to use them to lead, encourage and motivate employees to reach their potentials to achieve the goals. (I5)</i></p> <p><i>You must give space to the marketing staffs, you have to encourage them to keep exploring and developing new ideas and business, if you do not support them monetarily or mentally, they would not have enough motivation or confidence to continue. (I14)</i></p>

### **MCS for controlling strategy implementation**

The traditional control role of MCS for controlling strategy implementation is captured from most of the interviewed managers in the case organization. The senior managers in PF, RB and IB departments all consider MCS as tools to implement strategy and achieve targets. This main function of MCS for controlling strategy implementation is being well understood within the organization, and MCS are designed in accordance with organizational strategy in order to stress the strategic priorities and keep intended strategy on the track.

### **MCS for renewing strategy**

The use of MCS for controlling strategy implementation has been confirmed widely in case organization, in addition, the understanding of MCS has been furthered by the director and other senior managers in the PF department. The director has pointed out that the use of MCS is not only restricted to strategy implementation, but also extended to the strategic adjustment and renewal. This use of MCS is also explained by the senior managers in the PF department. As described by the director and managers above, MCS in the organization is not only being used for controlling strategy implementation, but also used for adjusting and renewing strategy according to the changing situation and environment in the case organization.

### **MCS for controlling the risk**

Apart from the use of MCS for strategy purposes, another use of MCS has been recognized for controlling risks by the interviewed managers. The risk control is the

most crucial task for the bank, because the bank industry is high risk business. So from a risk point of view, the interviewed managers in audit and LC departments understand MCS in a different way comparing with the managers in PF and RB departments. They regard MCS as useful and necessary tools which play an important role in controlling the risks in the organization. This understanding has been affirmed by the manager in RB department as well.

### **MCS for exploring the new business**

The use of MCS for exploring new business is also identified from the interview with the general manager in SB, and this view is also reinforced by the general manager in the RB department; MCS can be used to motivate people to search for new customers and business by setting higher goals. Managers in RB and IB department stressed this use of MCS is crucial in term of organizational development and growth, it helps motivate employees and organization to search for the new sources of customers and business in order to drive business and organization expansion.

### **MCS for controlling employees' behaviour**

Furthermore, from a human resource perspective, the interviewed managers in the HR department regard MCS as a crucial means to control employees' behaviour, which is considered as one of most important uses of MCS. The deputy manager in the HR department and the general manager in SB also commented that the plan would not be completed without keeping the employees under the control. According to managers' understanding of MCS, employees are seen as the vital part for completing the goals and

achieving the strategy, and all the MCS used by managers are designed to ensure the employees' behaviour in the interest of the organizational goal achievement.

### **MCS for empowering employees' behaviour**

The general managers in the SBes argued that the use of MCS is not only for controlling employees' behaviour through adopting the strict and hard control, but also for leading and encouraging employees' behaviour to complete their goals by the flexible and soft control. Moreover, the MCS are not only used for empowering employees to complete their targets, but also used for encouraging them to learn and innovative to foster organizational learning and innovation, and managers acknowledge that the employees are the source of innovation of organization.

#### **5.2.2 MCS as a Package**

According to the managers' understanding of roles and uses of MCS, which are summarised above in table 5.1 and figure 5.2, managers confirmed MCS are used together to achieve the same purpose which makes them a whole package.



**Table 5.2 Summary of the Quotations for MCS as a Package**

MCS	MCS as a package related to same purpose	<p><i>MCS consist of tangible and intangible parts, the most important thing is how to coordinate and integrate them and make them work together in order to achieve pre-set goals. (I6)</i></p> <p><i>MCS have two parts; one part is the hard systems which are designed for each business functions, another is the soft systems, which is include self-control, depends on their responsible and moral level, and self-evaluation which all rely on personnel control. (I10)</i></p>
	MCS as package regarding to tensions	<p><i>We need to focus on execution of our plan and achieve our targets, and at the same time, we also need to update and adjust them to fit external environment and market changes, otherwise the plan would not have actual effect. (I2)</i></p> <p><i>For the bank, there is also conflict, you have to use MCS for achieving different things, at one hand, you have to control the cost and risks, at other hand you have to expand the new business and encourage innovation. (I1)</i></p> <p><i>Comprehensive control systems are an integrated system which can be used to control and influence employees' behaviour and thinking, make them know what they cannot do, and encourage them to do what they should do. (I7)</i></p>

Some other managers in LC and the IB department also mentioned the uses of MCS for achieving organizational goals and influencing employees' behaviour, and they consider MCS as an integrated system and whole package which consists of "visible things" and "hard systems" (accounting control systems) and "invisible things" and "soft systems" (social control systems). Other managers see the control systems as a package from another point of view. MCS are working together to achieve and balance the tensions between different roles and uses of MCS, the tensions between strategy implementation and strategy renew, risk control and business exploration, and constraint and empowerment of employees' behaviour.

All managers agree MCS are used for improving organization's performance: "*They are used to improve the organization capability and competitiveness.*" (I1); and "*MCS are the assessments of individuals and organization in term of efficiency, effectiveness and performance*" (I2). In addition, based on the understanding of MCS from managers, it has been found that senior managers tend to understand MCS from the strategy levels, while middle managers try to focus on the business levels and employees' perspective:

*For the organizational structure and system, the people in the higher level, like the president who would not focus on the details of the business, he would look at the big strategic direction and objectives, and like us, we are just like actors and executives who deal with the employees and business and send the information back to high level.* (I14)

Overall, based on the managers' understanding of MCS, they see MCS from a holistic view -- they regard and exercise MCS as an integrated and whole package for meeting different organizational needs and purposes and balancing different organization's tensions.

### **5.2.3 MCS Used by Managers**

According to the managers' understanding of MCS and internal documents in case organization, managers use a broad MCS including formal and informal control systems presenting in different forms, ranging from administrative control, accounting control systems and performance measurement systems to social and cultural controls. In particular, they mainly use a number of control systems, including organizational rules and regulations, audit and risk control systems, planning and budgeting control, BSC, ABM, EVA, cost control, departments and individual's performance measurement systems, incentive and reward systems, and social and culture controls.

**Table 5.3: The MCS Adopted in the Case Organization**

Important elements in MCS package	Administrative control	Organizational regulations and rules; Employee's behaviour guide line; Independent audit system; Risk control system
	Accounting control systems	Annual plan; Budgeting control; ABM; EVA; Cost control
	Performance measurement systems	KPI; BSC; Department and Individual PMS; SAP system
	Leadership	<i>It is an integrated system which is including regulations, culture, value, leadership, and evaluation system (I14)</i> <i>The leadership has impact, for different managers, some will give you freedom to do things, but some not; some follow the regulation strictly, some operate flexible. It all depends on what kind of value they promote. So to a great extent, it is related to the leadership styles. (I15)</i>
	Culture	<i>I think it's a comprehensive evaluation of internal control system, it is actually a whole system of integrating so many things, the most important thing is to integrate the invisible things, so that they can be embedded in each person mind, through this system, it let you know what you can improve, what constrained you, I think this is the key, and the cultural guidance is very important. (I8)</i> <i>MCS are comprehensive systems which are related to all aspects of organizational activities, for example organizational culture, performance measurement, regulation, they are all used to monitor and evaluate the employees and plans. (I9)</i> <i>MCS are the systems used to monitor operation process and evaluate employees' and organizational performance, the culture has played a role in it. (I11)</i>
	Information systems	<i>I think MCS are an IT system, all the data and information are used to implement the plan, monitor the process, control the activities and making decisions, and it integrates all departments and functions and facilitates communication and information transfer within organization. (I4)</i>

Among the control systems, the organizational culture and leadership are identified by the general managers in RB and IB department, HR department and SB as important elements in the control systems which play an important role in helping managers control or motivate employees to achieve the targets and plans. As discussed above, MCS are mainly used for control and innovation purposes in case organization; and MCS are seen as a whole and integrated system by interviewed managers to achieve organization's purposes

and balance the tensions between different roles and uses of MCS. Moreover, the general manager in IT department perceives MCS as overall information systems.

#### **5.2.4 Discussion**

In an overview of the findings of understanding of MCS from managers and MCS adopted in organization, two roles of MCS were identified through data analysis -- control and innovative roles of MCS -- and they are regarded as two main roles of MCS functioning in organization. There are three specific different kinds of uses of MCS under each role of MCS in organization, control role of MCS is used for controlling strategy implementation, risks and employees' behaviour, while innovative role of MCS is used for renewing strategy, exploring new business and empowering employees. Furthermore, through the interviewed managers' understanding of MCS, most of them consider MCS as a whole package which includes broad different forms of control systems for performing different roles and meeting different organization's purposes.

#### **The roles and uses of MCS in case organization**

According to the understanding of MCS from managers, managers in different departments perceive MCS in a slight different ways according to the different control systems adopted and used in their departments; however, managers have a clear understanding of the functions of MCS in their department and how to contribute to the overall organizational control. This was demonstrated by the view that the concept of MCS means different things for different functional and level managers. Different functional departments related to the different functions and uses of MCS, they are specific designed to fit each part of

overall organizational control (Ferreira and Otley, 2009; Malmi and Brown, 2008; Brown, 2005).

There are two main roles and six different kinds of uses of MCS that have been identified as focuses in the organization. The tradition control approach regards the role of MCS for controlling strategy implementation and goal achievement remains as a priority in organization. It shows MCS play a significant role in controlling in the organization. The main role of MCS is to keep organization under the control to meet defined objectives, this dominative approach is illustrated by Merchant (1985) and Anthony (1965). The other two uses of the control role of MCS are for controlling risks and employees' behaviour in order to keep organization activities and employees' behaviour consistent with organizational goals. This findings corroborates the view that the basic function of MCS is designed to influence and direct employee behaviour and action to make sure every employee takes action in line with organizational needs in order to achieve organizational goals, which is mentioned in the literature review (Malmi and Brown, 2008; Alvesson and Kärreman, 2004; Langfield –smith, 1997).

Another role of MCS is addressed by interviewed managers for renewing strategy and adapting to the fast changing environment, exploring the new business opportunities and empowering and motivating employees to achieve the designed targets and innovation. As discussed by Frow, Marginson and Ogden, (2010) and Merchant and Otley (2007), MCS should not be only used for achieving financial targets and predictable goals, but also for innovation and strategic adaption. This innovative role of MCS is necessary to help an organization learn and adapt in a competitive market and changing environment. The new perspective of using MCS is raised from managers in IB and RB departments, they perceive MCS as tools can be used to exploit the new sources and explore the new

opportunities to accomplish organizational goals. This understanding confirms and furthers the finding from Kloot's (1997) study; the MCS can facilitate learning and foster innovation by motivating employees to search for new opportunities and expand the organization's capacity to create its future.

### **MCS as a package in case organization**

All managers agree that the MCS are complicated and comprehensive systems working together, rather than single system working separately. The findings are in line with literature, the MCS is seen as a package, rather than individual system (Chenhall, 2003; Otley, 1980). All the control systems are functioning for achieving same purposes and ends (Abernethy and Chua, 1996). Findings indicate MCS are interrelated and work together because they try to achieve different roles and uses of MCS needed by organizations and balance the tensions between the different roles of MCS. Therefore, MCS operate as a package in terms of achieving same ends and balancing the tensions (Simons, 1995).

### **MCS used by managers**

The case organization adopts various control systems, ranging from accounting and financial control, such as budgeting, BSC, EVA, ABS and other financial measures, to non-accounting control systems including administrative control, social and cultural control. According to managers' reflections, they also regard leadership, culture and socialization as important means of controlling and innovating employees' behaviour. So the organization adopts and uses broad MCS which do not only include traditional formal control systems, but also embrace more informal and socio-cultural control (Herath, 2007; Chenhall 2005). Managers in the IT department mentioned the information technology

and systems also play an important role in the overall organizational control process, because the information flow, systems and networks are essential to enhance traditional control mechanisms and also enable employees to learn (Ferreira and Otley, 2009; Otley, 1999).

The interviewed director perceives MCS as a collection of control elements which are not only used for achieving organizational goals, but also for strategic renewal and adjustment, and they mainly focus on strategic level of control. Senior and middle managers in the PF department tend to use more accounting controls such as budgeting and BSC, and all of financial indicators and measurements to monitor the tracking the completion of plan. Managers from this department mainly focus on the operation level rather than strategic considerations. Being different, HR managers in this organization tentatively put more emphasis on HR management such as promotion, rewards and incentives, training from personnel levels. The interviewed managers from the audit and law compliance department pay more attention to risk control systems to identify, measure and control internal and external risks. With different emphasis on differ functional areas; three levels of control are identified in the organization: control in strategic level, operational level and personnel level which structures overall organizational control framework in the case organization. This is consistent with the view that MCS do not only include the strategic planning stage, but also an operational and management control stage (Langfield-Smith, 2007; Chenhall, 2003; Otley, 1999).

In summary, the understandings of MCS from interviewed managers show MCS are playing an important role in organization control. The adequate evidence demonstrates that the managers are not only focusing on traditional control role of MCS, but also supporting innovative role of MCS. Overall in the case organization, MCS included wider control

systems, not limited to the narrow and single control system, but also broad and integrated control systems, and they work as a package in terms of achieving the same purposes and balancing the tensions between different roles of MCS. Initial effort has been made to set up the scene and display the organizational control framework. The next theme will provide a better understanding of how managers use the MCS for different purposes in the organization, and how control systems interact with each other to achieve different roles and uses will be explained.

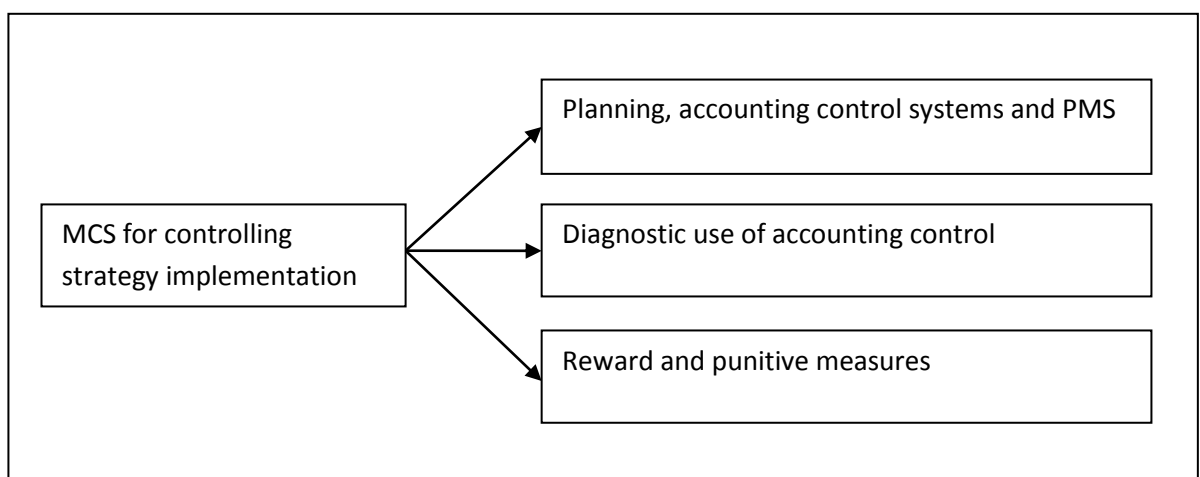
### **5.3 Theme 2: Control Role vs. Innovation Role of MCS**

#### **5.3.1 Control Role of MCS**

##### **5.3.1.1 MCS for Controlling the Strategy Implementation**

Traditional role of MCS for controlling use is confirmed by all the interviewed managers in case organization, they agree the main role of MCS is to help them complete the plans and achieve the targets. This control role of MCS mainly relies on using the formal planning, accounting control systems (budgeting), PMS (BSC) and reward systems in the case organization (figure 5.2).

**Figure 5.2: MCS for Controlling Strategy Implementation**





### **Planning, accounting control systems and PMS**

Director and managers in the PF department regard the strategic planning, accounting control systems and PMS, including budgeting control and BSC, as the main control systems to help organization achieve their plans and goals; and each department has their own budget plan and relative BSC indicators which are allocated from the overall organization budget plan and BSC.

*We make annual budget plan for the branches and sub-branches at the beginning of every year, and set all the indicators in the BSC according to the annual plan. (I1)*

*Budgeting is mainly for resource allocation and planning, and the strategy communication and KPI selection mainly rely on the balanced scorecard, we need them all, but use them for different purposes. (I2)*

*Speaking from the management point of view, budget and indicators are the main MCS; the BSC is mainly responsible for overall planning and financial monitoring and management, and there are other MCS such as: financial control, we use the SAP system for controlling all of the financial management. (I3)*

There are three BSCs, in total, being used in case organization. The overall BSC is used for evaluating the overall organizational performance and the president's performance as well, and the other two sub-BSCs are used for evaluating corporate business and retail business performance, all of them are connected to each other towards achieving organizational strategic plan and goals. The director explained:

*For BSC, totally there are three cards, the main card which is the overall BSC, and other two cards which are corporate and retail business BSCs, and all the BSCs are divided into four dimensions, financial, customer, management, and learning and growth, and it is also including deduction points. (I1)*

*For performance measurement and evaluation, we mainly use BSC; it was based in HR department before, but now is based in planning and finance department. The head office carries out the assessment for branches annually, and the branches do the assessment for*

*the sub-branches quarterly, we will set the branch targets according to the main BSC indicators, and then adjust the indicators according to the changing situation. We also run the assessment at half year time in order to find out the weak indicators and in order to improve them. (I1)*

Moreover, the BSCs do not only link different businesses performance together, they also connect to the departments' performance. The general manager in international department stated, *"Our department performance indicators are connected with the overall BSC, and it is also separated from overall BSC"* (I9). The indicators in the BSC are developed and set according to the annual strategic plan, they are mainly used to highlight strategic focuses, keep organization in the pre-set strategic direction and carry out the specific tasks. Managers in the PF department explained:

*The whole evaluation system is based on the strategy implementation, and BSC is one of main controls and evaluation systems, all the indicators are set according to the strategic plan and direction, which are mainly used to monitor and assess the branches and departments' performance. From strategic point of view, why we set these indicators rather than others, why it's the same indicator, but the focuses can be different. We have different focuses every year, if you study the evaluation and assessment systems, you will find the where the development focuses are, then that will be easy for you to concentrate on the priorities. (I2)*

*Like operating profit, cost income, non-performing loan interest rates, company's deposits growth, private savings, and personal loan growth, SME loan growth, intermediary income, VIP customers, and effective customers. All the indicators in the BSC are set according to the strategic development plan in order to monitor the targets, strategic resources and specific businesses, complete the plan, so BSC has been used as a management control tool, through the indicators setting, the high and low scores can guide you where you should go, which also indicates the strategic development directions, where are the focuses. So it is used for strategic direction control. For example, this year, the government focuses the development of SME, so you can see the focus is on the SME loans indicators in the BSC, the score on SME indicators will be increased accordingly. (I3)*

### **Linking accounting control systems and PMS to reward system**

The incentive and punitive measures are also used along with accounting control systems and PMS. BSCs are linked to reward systems which help connect the organizational performance to the individual performance, and align organizational interests to individual benefits in order to align employees' behaviour with organizational strategic plan in order to complete the indicators and plan. Managers in the PF department demonstrated this point:

*All the plans and indicators must be followed and supported by the evaluation system, otherwise employees will not follow, and there will be impossible to implement, so if there is no incentive and punitive measures, the BSC will have no effect. (I3)*

*The annual total score of BSC counts 60%, and the middle year assessment counts 40%, these two scores add together is the assessment for the president of the branch, and the assessment results are categorized into different levels, the top three will be rewarded, and others will be received punishment. And if you cannot complete the targets, you will receive deduction points according to the punishment rules, evaluation is based on your performance levels which are closely connected to the BSC scores, so BSC as a control system is mainly used for rewarding and punishing. (I2)*

Furthermore, the managers in the PF department, IB department and SB found out these accounting control systems and PMS are tight and strict which does not allow flexibility.

*From the perspective of the branch, we only concern the completion of plan and targets, and focus on strategy implementation; such control does not allow much flexibility, we cannot do what like to do, that is not allowed, the main target is to complete the implementation of the plan and targets according to the strategic direction and strategic focuses. (I1)*

*The control from the top mainly rely on the indicators, they use all the indicators to evaluate and control my performance and behaviour, monthly, daily, quarterly, they could*

*see the result easily if we cannot hit the targets, so we are controlled by these indicators.*  
(19)

*We think it is quite tight control, because you have to follow everything which is set and listed in BSC, you cannot do anything else according to your own thoughts, the indicators are very clear In BSC, they strictly prohibit freedom. (I13)*

### **Diagnostic use of accounting control systems**

The BSC and budgeting plan are not only used as part of a strategic plan to guide where the organization should go, the diagnostic use of them also helps monitor the process and seek for correction in order to keep the plan on track. The managers monitor the indicators frequently to ensure the daily and monthly targets have been completed to ensure the annual plan can be achieved. During this process, if any errors have been detected, the managers will carry out necessary alternative measures to correct the unexpected events and ensure the pre-set goals and indicators can be completed. The manager in IB department and general manager in SB illustrated:

*We use a lot of control systems to close monitor the progress every day, every month, every year, in order to keep things on the track, without these control systems, we would not know how well we progress and complete our plan. There is an adjustment process; we do the assessment in the middle of the year, and final evaluation at the end of year. We will be informed of the result of the assessment, and you need to find out the reasons according to your overall evaluation, for example, among 18 indicators, we will analyze the completion of them, and find out the reasons why they have been achieved successfully and also need to find out what caused the bad result and how to make improvement. You need to have the solutions and also need to know how to implement these measures. (19)*

*When we implement our strategy and execute our plans, we will find out what causes problems and what leads to bad completion in the first half year. You must know where problems are, and provide specific modified implementation measures. If you find out employees are lack of motivation, then we motivate them through competitions, and*

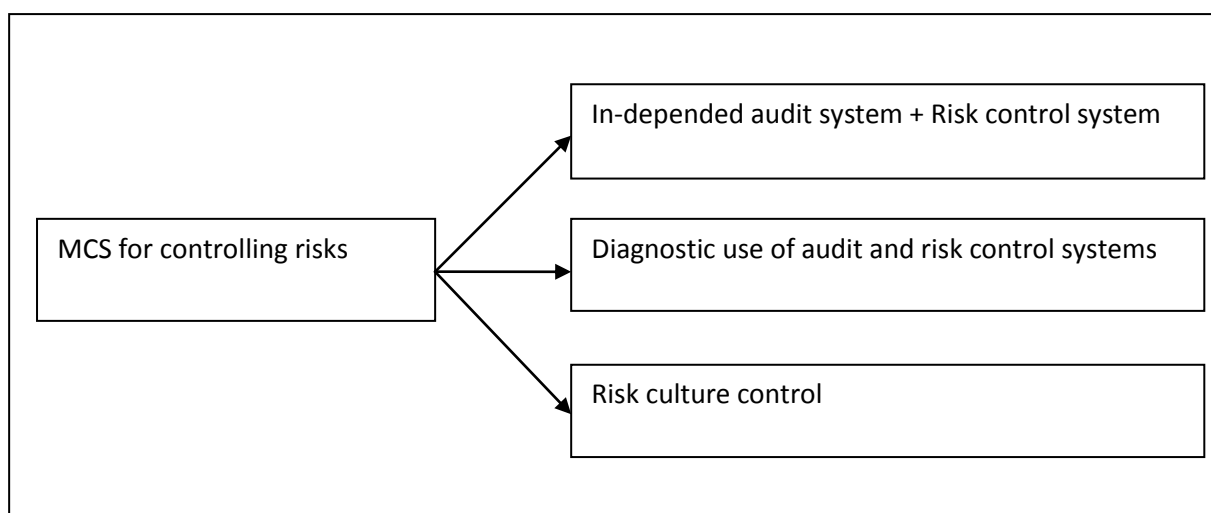
*increase the incentive to encourage their enthusiasm to ensure the completion of whole year's targets. (I14)*

This traditional control role of MCS for controlling strategy implementation and achieving goals are evidenced through adopting and using integrated accounting control and performance measurement systems, such as the budget control and BSC. They are connected to each other to provide overview of each department goals with explicit requirements from budget control plan and BSC indicators. The high score indicators on the BSC show where the strategic focuses and the managers need pay more attention. The accounting control systems and PMS are connected to reward and punitive measures as well to keep actions towards organizational goal achievement, and diagnostic use of accounting control systems also helps close monitor the plans, deal with unexpected events and bring organizations back on the pre-set track.

#### **5.3.1.2 MCS for Controlling Risks**

Another crucial use of MCS was identified for controlling risks by the interviewed managers in the organization; controlling risks is considered as the first priority in the bank. The operating boundaries are set by adopting and using an independent audit system and risk control system which aim to protect the organization from risks. The organizational risk culture also plays an important role in assisting in controlling risks through enhancing supervision and culture guidance which promotes sound risk management (figure 5.3).

**Figure 5.3: MCS for Controlling Risks**



**Table 5.4: Summary Quotations of MCS for Controlling Risks**

MCS for controlling risks		Quotations from interview, observation and internal document
	Reasons of adopting MCS for controlling risks	<p><i>The banking industry is a high-risk industry, you must make sure all the risks are covered and controlled, and otherwise you cannot survive for long. (I5)</i></p> <p><i>In order to avoid the loss, a good risk control must be in place, it is not only help us control the risk, but also help us build healthy and sustainable business. (I6)</i></p> <p>The Bank's internal control objectives are: to enforce the national laws, regulations and the Bank's internal rules and regulations; to keep the business records, financial information and other management information in a timely manner; to improve the effectiveness of risk management system to implement the Bank's development strategy and fully realize the business objectives. <b>(Internal control document)</b></p>
	In-depended audit system	<p><i>We have in-depended audit system called "Yishentong" system; this system is used for checking all the business. (I6)</i></p> <p><i>The audit is used for business approval and risk control, and it is also used to control the employees. The assessment indicators in audit system are closely linked in order to prevent risks, and guide</i></p>

		<i>employees in accordance with company rules and regulation to achieve organizational objectives. (I3)</i>
	Risk control system	<p><i>All the risks are being recognized; the risk control system should cover all the risks organization facing, and develop effective processes that can identify, measure, monitor and control risks incurred in the bank. (I6)</i></p> <p><i>The effective risk control is a very crucial part of bank management; it is the foundation of achieving safe and sound banking operation. Effective and reliable risk control can help banks meet the goals and objectives and achieve long-term profitability targets. (I5)</i></p>
	Diagnostic use of audit and risk control systems	<p><i>Independent audit system can help ensure the bank will comply with internal regulations including internal rules and procedures and external laws including national and local policies. It also helps reduce the unexpected losses, operational risks or damage to the bank's reputation. (I6)</i></p> <p><i>We have risk management system which helps check the legality and compliance of all documents and all business processes; everything must go through this system, it is checked by the audit first, if it is related to other departments, all the departments have to check and sign together, then the lawyer will review everything based on external and internal legal requirements in the end, such a system ensures legitimacy of business for the best interest of the organization, this system is comprehensive system, which check every business, and in every department, and we have a supervisor representative who helps supervise in every department. (I7)</i></p> <p>One of the contents of the Friday performance meeting is to analyze the performance result and report problems and potential risks, managers try to detect and control the risks to ensure the weekly targets can be achieved. <b>(Observation)</b></p>
	Risk culture control	<i>When the managers want to operate the business, they must know the business boundaries very well, when you want to join this organization, you must understand the risk culture, then you can do things right, if you do not understand boundaries and culture, you cannot do anything, our culture is risk culture, this culture is</i>

		<p><i>very strict. (I1)</i></p> <p><i>Culture means doing the things, and how to make sure doing the right thing is achieved though culture training, we have a lot of trainings around risk culture, without training, you would not have right thinking on risk-decision making. (I5)</i></p>
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### **In-dependent audit and risk control system**

The important reasons of adopting MCS for controlling risks are well explained by the managers in audit and LC departments. The bank adopts an independent audit system; it is including internal and external audit, and their functions are to carry out detailed examination of all the business information, reports and processes in order to meet internal and external requirements. As managers in the LC department illustrated, risk control system is adopted in the organization, combined with an independent audit system, it helps organization prevent and control risks effectively. The managers in the audit and LC department explained the need for adopting an independent audit system and risk control system and benefits of using them. The independent audit system is introduced to monitor and examine the legality of all the business process and control risks, and a risk control system helps organization ensure the plans and goals can be achieved without causing any unexpected risks.

### **Diagnostic use of audit and risk control system**

The audit and risk control systems are used together in a diagnostic way to identify, measure and control the potential risks based on the internal regulations and rules and external policy and laws. All the managers confirmed that they can help organization



control the risks, reduce the unexpected losses and operational failures which can threat organizational goal achievement.

### **Culture control for controlling risks**

By adopting and using independent audit and risk control system to control risks, the risk culture control has been considered by the general manager in SB as an important means to control risks in the organization. The risk culture has also been seen as the essence embedded in organizational culture in the case organization, because it influences employees' values and behaviour and shapes risk decisions. The case organization enhances the risk control culture through risk culture training and guidance.

Managers in the LC department tend to use risk control system control the business, operational and financial risks rather than other risks, because they are more harmful to the business and organization success:

*Internal control is to control the risk, we put more control on the risk-prone areas like management, accounting, and less control on the offices, human resources, planning, because their risks are very small. (I7)*

Managers in SBes feel constrained by the strict independent audit system, risk control system and risk culture, they stated:

*I have a lot of pressure to do business, because rules and regulations, also including our risk control, all of them are used to regulate and control us. (I13)*

*For example, we first entered this organization, I thought it would be very flexible, but what others cannot do, we cannot do either, and I found out the business we cannot do, and it can be done in the state-owned banks. (I14)*

Other managers in the audit and international and RB department hold the different views, they believe independent audit system, risk control system and risk control culture have positive effect which can benefit organization.

*Too many procedures and routines limit the flexibility, but they also prevent the risks. (I5)*

*The risk control is not to restrict your development, it is for preventing risks, when exploring new customers and products, you have to choose the right customers and right processes, you cannot say the process is too strict and complicated, if your marketing is not successful, which only means the customers are not suitable for this products or business. (I10)*

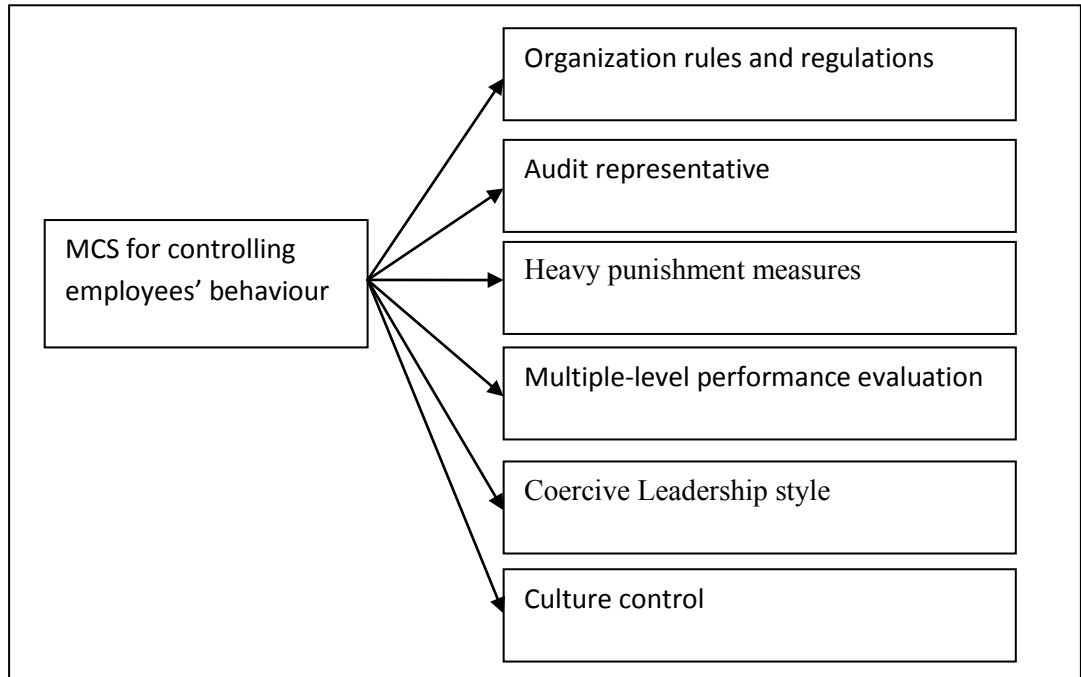
*It is not allowed to operate flexible, but in principle, it can be operated under the risk control, this culture works well, although it is restricted, we do not have any bad debts so far, that is the good side. (I11)*

Control systems for controlling risks are criticised by many middle and lower managers, they found these control systems restrain the flexibility; however, most of the senior managers affirmed the importance of these control systems for controlling the risks which promotes risk culture and business success.

### **5.3.1.3 MCS for Controlling Employees' Behaviour**

The basic use of MCS for controlling employees' behaviour is confirmed by the interviewed managers, the organization tends to use formal control systems such as organization rules and regulations, audit representative, multiple-level performance evaluation systems, heavy punishment measures to control employees' behaviour, and the informal control systems such as organizational culture and leadership impact on controlling employees' behaviour are also recognized.

**Figure 5.4: MCS for Controlling Employees' Behaviour**



**Organization rules and regulations**

Most of managers stressed the usefulness of having strict organizational rules and regulations, they are used to control employees' behaviour and keep employees acting in the best interests of organization, managers in LC department explained:

*MCS are included visible and invisible things, visible things are like organizational rules and regulations, and invisible things are like embedded thinking and values which are all used to control behaviour. (I6)*

*Constrain a person's behaviour, especially for a new employee, it is really necessary. We got to constrain their behaviour and thinking when they enter this new organization, otherwise they have no rules to follow; we cannot make sure their behaviour. (I7)*

However, managers in the IT and RB department and SB agree the rules and regulations are really strict, to some extent, they restrict behaviour and stifle creativity and innovation.

*The company's rules and regulations, including performance indicators and evaluation, such controls are the major constraints, there is no freedom, but follow them, so everyone is bound by them. (I4)*

*The strict control are form the things on paper, such as regulations, business ethics is bound to keep you on the right track, it is also used to install the thinking in your mind, but completion mainly relies on the indicators. (I8)*

*We focus on the people's behaviour; we still strive for innovation, but with strict rules, which limit the flexibility of operation. (I15)*

### **Audit representative**

In each department of organization, there is an audit supervisor representative who is responsible for monitoring and supervising employees' behaviour; and reporting inappropriate behaviour or actions back to audit committee according to the audit regulations. In general, audit supervisor representatives are selected by audit committee; usually they are the general senior managers in each department. Managers in IB and HR department demonstrated:

*Each department has its own audit supervisor to help his department to supervise compliance work. And supervision is a part of my own job; I have to make sure all staffs fully understand and stick to organizational policies and procedures, and do their duties and take responsibilities for what they do. (I9)*

*We got to keep everything under control, and we have internal controls and audit supervisors which control our behaviour and keep everything within the line. (I11)*

### **Heavy punishment**

In addition to strict organizational regulation, audit supervision, the organization also introduced heavy punishment measures to control employees' behaviour. Organization breaks the granted safe rules of managing employees and adopts strict mechanisms.

*Bank took the lead in breaking through so-called "Three Irons System", i.e. never dismissed employment, never transferred position and never decreased salary, which existed in domestic enterprises then, and implemented the "Six Possibilities" mechanism, i.e. every employee has the possibilities of being employed or dismissed, possibilities of being promoted or relocated downward to lower position and possibilities of being treated better or worse in remuneration. (Organizational documents)*

The strict punitive measures drive employees to follow the organizational regulations and pursue organizational goals, it is confirmed by the managers in the PF department, LC department and SB:

*If they do could not finish the targets or do something wrong, that will affect their bonus, for worse, they will be dismissed from their job, we have dismissed two employees recently, because they could not complete their indicators. (I3)*

*Mainly we try to help and discuss with them, if they make serious mistakes, we will punish them with cash penalties or administrative penalties. (I7)*

*All the evaluations are covered by BSC linking to your awards and your position. If you got less than 80 points for continually 3 years, you will be questioned, you have to leave in principle, if you will not make changes to adjust, then you have to quit. (I12)*

### **Multiple level performance evaluation system**

Performance measurements like BSC linking to reward and payment are used to evaluate departments' and individuals' performance, managers have the same feeling that

performance measurements are mainly used to control employees' behaviour. General managers in the PF department and SB expressed:

*The BSC indicators are set through early discussion, after everything is finalized, branches will implement them through all the levels of organization, all the levels of employees, following the plan and indicators, BSC actually is only a table with the score on which is linked to your performance and payments, so it is mainly used to control employees' behaviour. (I3)*

*You see everyone acts in the different ways; we have to use the PMS to monitor and evaluate them to ensure they can act in the way we want. (I13)*

In keeping with the understanding of the role of performance evaluation systems for controlling behaviour, six interviewed managers disclosed the unique way of using performance evaluation systems for influencing and controlling peoples' behaviour, which by introducing comprehensive and multiple-level performance evaluation systems.

Managers in HR department described:

*For the employees, they give themselves marks first, then I will give their marks, the difference cannot be more than 5 points, except these, we will be marked by the same level managers, and the president also mark us quarterly, monthly, this comprehensive assessment makes us have no choice, but to complete the task in the required way, if you cannot finish, you will deduct your marks. (I11)*

*At the middle of the years, we will evaluate and assess the employees, giving them rewards and incentive according to their performance scoring. The department managers will evaluate their employees not only based on their performance, but also based on culture recognition, management skills, professional knowledge, innovation capability; it also includes a self-evaluation, as well as the evaluation from the president, so this evaluation is comprehensive. (I12)*

Multiple-level evaluations are carried out anonymously, and all the evaluations from different levels is integrated and added up to evaluate employees' performance and behaviour, the manager from HR department explained that:

*The evaluation is anonymous, except personal assessment, presents also do the evaluation on our department, which is separate from BSC, and ranking from A to D. Department evaluation including the various business indicators, branches evaluates their sub-branches including all the indicators, the completion of the work, and give scores based on their performance. The audit department review and monitor me, my supervisors evaluate me, the Human resource department assessment, and the evaluation from all middle level managers, it is mutual scoring, we also evaluate the lower level managers, so we monitor and evaluate each other through online, and one of the evaluation is innovation, and it is also in the evaluation of department. (I11)*

Among the multiple evaluation systems, Self-evaluation is special kind of evaluation managers used to assess employees and enhance their self-control awareness. The manager in HR department explained:

*The mark they give themselves as the basis for other evaluation, like I will mark them based on their own evaluation, but the difference cannot be big. Through this self-evaluation, they will know what they should do, what they have done and what they need to improve in future. (I9)*

Two managers from the IB department also expressed their personal views on this multiple evaluation system, *"The evaluations are from everywhere and every people in the organization; this evaluation is too wide and strict, so our behaviour is restricted"* (I9), and this opinion is also confirmed by another manager, *"The evaluation comes from so many levels and there are anonymous, you cannot be flexible at all, you have nothing to do with it, but follows what they require"* (I10).

To some extent, these multiple evaluation systems constrain the flexibility and freedom of employees' behaviour; however, it helps neutralize the negative effects and avoid big threats in order to control the employees' behaviour and risks. The director commented:

*Strict evaluation is necessary and positive, to some extent it is constraint, but it ensures employees would not do anything away from organizational goals, so you need to control their behaviour from all aspects in order to get the job done. (I13)*

The manager in the audit department holds the same opinion on this multiple evaluation system, he considers it as the right thing to do and it has positive effects on controlling complex personal relationships (Guanxi) in organization.

*We do not want the evaluation to be measured by the personal relationships, then no one will do the real business and work, no one will follow the rules and regulations, which will bring so much risks to the business. (I5)*

The manager in the PF department also affirmed this view and explained that from another angle multiple-level evaluation can moderate hierarchy effect:

*Just because of this evaluation system, we do not have hierarchy, because everyone has to do the same thing, and our performance is evaluated according to the real performance, not the boss judgement. (I3)*

### **Coercive leadership style**

All the managers confirmed their leadership styles have a huge impact on the control of employees. Leaders are the persons who exercise the MCS in the organization, and using the MCS loosely or tightly to control employees all depends on managers. And most of the



managers tend to use MCS in a coercive way rather than enabling way. Managers in the LC department and SB illustrated:

*When you want to do something right, you must have the right thinking and behaviour to do it. So I try to control their thinking and behaviour strictly, if you do not control them, they may do it, but may be do it completely wrong, so there is the base line, we have to comply with national regulations, and also internal regulations, otherwise we may go to completely wrong way. (I7)*

*I prefer hierarchy management, and I have three rules, you must follow the principle, follow the rules and procedures. (I13)*

### **Culture control**

Cultural importance on controlling employees' behaviour is acknowledged by all the managers, and the manager in the IB department described:

*Cultural value is important, you see my team, and I am also trying to affect them by using the organizational culture. If there is no culture for a team, they would cooperate or unite; and they will not perform well according to systems or plans. (I9)*

Every new employee has to attend an introduction lesson delivered by the president of bank; through the first lesson, the president wants the employee to know the core values, beliefs and spirit of the organization in order to influence employees' thinking and behaviour. The director stated:

*The culture guidance is very important, for each new employee, we will have an introduction class, the president will introduce the traditional bank culture, our bank's philosophy should be taught to everyone, it is same to every new employee, and it is related to the culture directly. (I1)*

The culture guidance is important; managers try to use organizational culture to influence their thinking, however, managers recognized it is difficult to measure the culture's effect, and it must be used with formal control systems. This point is demonstrated by the managers in retail and LC department:

*The behaviour constraints from culture influence are more than constraints from organizational rules, but culture influence is difficult to measure. (I7)*

*The culture guidance is very important, but you must use it with other measurements, and then you know what kind of reward you will get if you achieve your targets and also the punishment you will get if you make mistakes. (I8)*

Overall, based on the interviewed managers' understanding, they regard the MCS in the organization as the routines and tools for controlling the employees' behaviour and accomplishing the organizational goals, rather than the tools for facilitating the change and innovation.

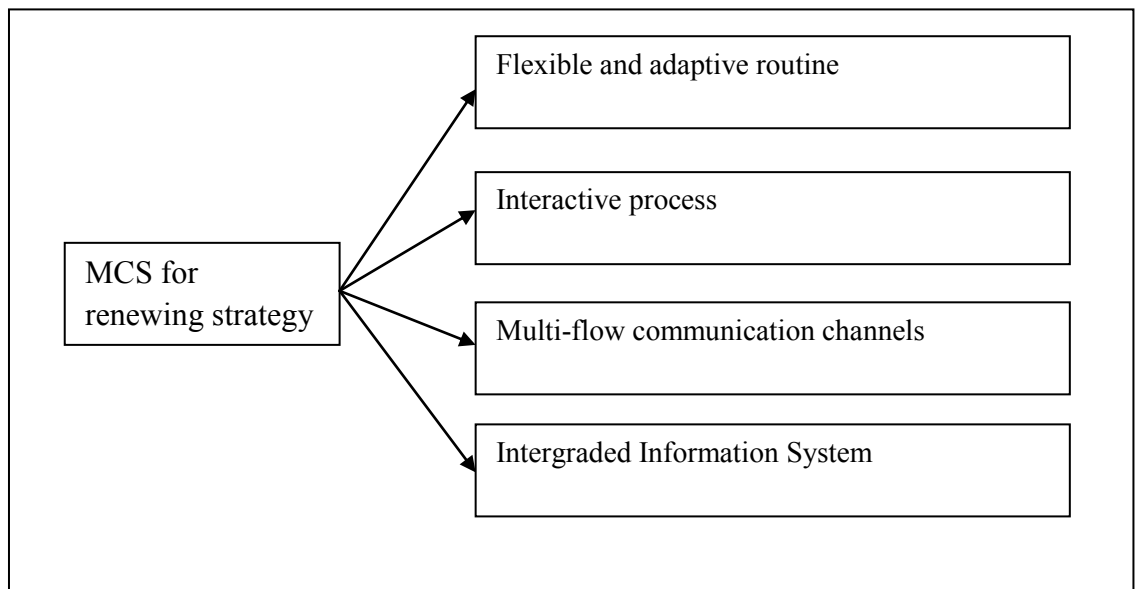
### **5.3.2 Innovative Role of MCS**

The control role of MCS has been addressed and confirmed according to the managers' experiences and understandings; the specific techniques and measures for controlling use are also well explained in details by the interviewed managers. Compared with the traditional role of MCS, the contradictory view of MCS has emerged from the data finding and analysis as well. This new perspective of MCS supports that MCS can be used to drive strategic renewal, explore new business and enable employees' behaviour in order to facilitate learning and encourage innovation. The specific ways of using MCS for learning and innovation are presented below based on managers' explanation and discussion.

### 5.3.2.1 MCS for Renewing the Strategy

The managers have described the role of MCS for renewing the strategy is achieved by introducing and setting flexible and adaptive routines of formal accounting control systems and PMS, adopting interactive processes, the multi-flow communication and the integrated information system. These control systems are used in a flexible and interactive way to monitor and challenge the existing strategy in order to renew the strategy and facilitate organizational learning when facing the changing situation.

**Figure 5.5: MCS for Renewing Strategy**



#### **Flexible and adaptive routine**

Flexible routine emerged as sub-code through the data analysis; 10 out of 15 managers asserted certain flexibility has been given which allows them to have chance to choose the strategic focuses according to its resource's advantages, and they also agree that flexible routines consider the regional factors and gives freedom and choices comparing with the old and fixed control systems. The manager from the PF department explained that

*The total score is 120 for BSC, you have choice to select the businesses which are easy and possible to complete, this is very flexible, first of all, it solves the unfair problem for different regions, and it also allows you take advantages of regional resources and ignore your weaknesses. (I2)*

Additional to the flexible routine, the bank also adopts an adaptive budgeting control structure, the three-down-two-up budget process (The head office makes the initial budget plan first, then branches refine it according to its current situation, and head office finalize it after two round negotiations). The director and managers in the PF department believe this flexible structure gives the opportunity to allow the head office and branches to communicate and negotiate, which brings so much freedom and allows the new ideas and innovation emerge. These flexible routines and adaptive structures enhance the organizational ability to learn and innovate.

*It is an interactive process; there is a three-down-and-two-up process. First the head office makes the plan based on previous year's completion and this year's situation, the branches will discuss the possibility of completing the plan, and the adjustment will be considered according to current situation, then give it back to head office, after two time negotiation, the head office finalizes plan. In this process, the adaption has been made to consider the situation and change. For example, we have a product which is expired this year, so we can achieve it in this year's target, through the negotiation and discussion, which effectively send the information of these changes to the top management team, and then appropriate adjustments will be made according to the market changes. (I1)*

*It is a very interactive control process, there is sufficient interaction and communication in this process which and allow us to adapt to the changes and unexpected things. (I2)*

### **Interactive process**

The interactive process is not only happening at the beginning of making the budget plan, but through the whole year. The interactive budget control process is also carried out at the

middle of the year to monitor the completion of the plan and seek for the adjustment of the strategy which is mentioned by the director and general manager in the PF department:

*Interaction is from bottom to top, like we will receive feedbacks quarterly, monitoring results daily from time to time, these interactive communication and effective feedbacks provide us useful information and help us solve the unexpected problems and accordingly renew our annual budget plan. (I1)*

*We make changes in the middle of the year, due to fast changing situation which makes us could not complete our targets, and we will adjust them. (I2)*

Moreover, managers do not only use budgeting control to communicate interactively to make and challenge the plan, BSC is also used interactively at the beginning of setting indicators in BSC, and through the whole way of completing them as well. Managers in RB and IB department described:

*We make an initial performance evaluation according to the annual plan, and in this process, we will ask for the opinions from different departments, and there is a feedback and interaction process, we will solve the disputations through the communication and discussions, so it would put a lot constraint, mostly it plays a positive role. (I8)*

*For example, the corporate deposit completion is not good, and then you need to submit the report to explain the reasons and how you can solve the problem. Our communication is very frequent, we will discuss the measure calculation methods of indicators, and we can make suggestions. For example, how you define the valid customer, we have constant discussions and communications with top management team about the indicators by considering the whole country situation and regional situation as well, and if we find out it is not reasonable, we will report it and give our feedbacks, there is an interactive process. (I2)*

During the implementation of BSC, the middle level managers can make an application and ask the top management team to adjust the indicators, if they find the designed

indicators are infeasible to complete or need to be adjusted to fit the changing situation.

General Managers in SB explained:

*The budget plan will be adjusted based on our domestic economic environment and the changing situation; branches can make an application to adjust the budget plan first, then the top management team will discuss it, and the agreement has to be made to adjust it.* (I14)

*We have assessment at the middle of the year, if the gap between planned goal and actual result is too big, the top management will ask for opinions, and try to investigate why the tasks could not be completed, what are the difficulties and reasons, and what is your practicable goal. There is a feedback and interaction process, if you have strong and reasonable evidences, they will prove the adjustment.* (I15)

The readjustment is carried out at the middle of the year to monitor the completion of the budget plan, and all indicators will be re-evaluated and readjusted according to the market situation and the completion; for example, “ *if any of them stop increasing, and some of them have the weaknesses, it will increase the innovation need, and then further evaluation is following, it is a continuous process, the weak indicators, the innovation need, re-evaluation, and it is a cycle of innovation and continuous process*” (I12). Therefore, the communication and interaction are going on from the beginning to the end which stimulates the strategic change and encourages the innovation.

Furthermore, more evidence has been provided by the director and senior managers that the interactive process helps the organization innovate and adapt: “*We have very frequent communication, we discuss about the standards, the calculation methods of the indicators, and we will make recommendations and adjust them to fit the current situation*”(I1), “*if you find the indicators are unreasonable, you can report back to the head office, they will*

*give you the feedback, so that it a continues interactive process” (I2). However, managers in the PF department pointed out that “the change should not be frequent. If it shows that you have to adjust very often, then the targets you set are too unrealistic, unreasonable, does not make any sense.” (I9)*

### **Multi-flow communication channels**

The effectiveness of adjusting strategy and plans relies on the multi-flow communication channels, the managers in the PF department commented:

*Before I think this bank should be very flexible, however I found out this flexibility is different with what I thought in reality and practice, originally I thought the flexibility comes out from the market by using the illegal means to win the competition. On the opposite, now I feel flexibility means fast response and feedback, excellent and efficient communication channels. (I10)*

The communication happens in both vertical and horizontal directions, between middle and senior levels, among branches and departments, all the managers found out there is no difficulty in communicating with anyone, any department or any managerial management level. The manager in the IB department demonstrated:

*For example, when we have difficulties in meeting customers’ demands, we will communicate with superiors. In the process of sharing this information, managers find out this could benefit others branches, then they will pass this information to others departments and branches and share it throughout the bank. For other banks, they may need time to think and discuss which will delay the useful information, so I think our bank is very flexible from this aspect. (I10)*

### **Intergraded Information System**

General Managers in the IT and retail department confirmed the importance of using intergraded information system in the case organization; it connects all the systems together and provides fast, accurate and useful information which is crucial for management control.

*We focus on development of technology and information systems, it is crucial for management and control, and our bank's technology and information systems are best in the bank industry. (I4)*

*If you have new ideas, but you do not have enough, specific and up-to-date data to support, you would not confident to make attempts, so we need to good system to get result fast. (I8)*

*The bank focuses on electronic, information technology development, introduced online approval, before you have to go to all the departments to make the application, and now you only need to do it on-line, in 2002, the Bank has adopted the integrated information system (Yishitong) through the whole bank. Daily information can be reported online from the sub-branches to branches, from branches to the head office. (Internal document)*

The further benefits of having intergraded information systems are also mentioned by the director and the manager in IT department: *"All the departments are connected through the information platform which links the different control systems, different kinds of accounting and finance information, everything can be done on-line through our system, and the information has been reported every day" (I1). "The information platform brings all staffs in the departments together, it is easy to get and manage all the information and convenient to contact everyone" (I4).* So the integrated information system can help share and transfer data and information within the organization and supports collaboration and communication between organizational members. It also links all the financial and accounting control systems and PMS which can provide all the financial and accounting

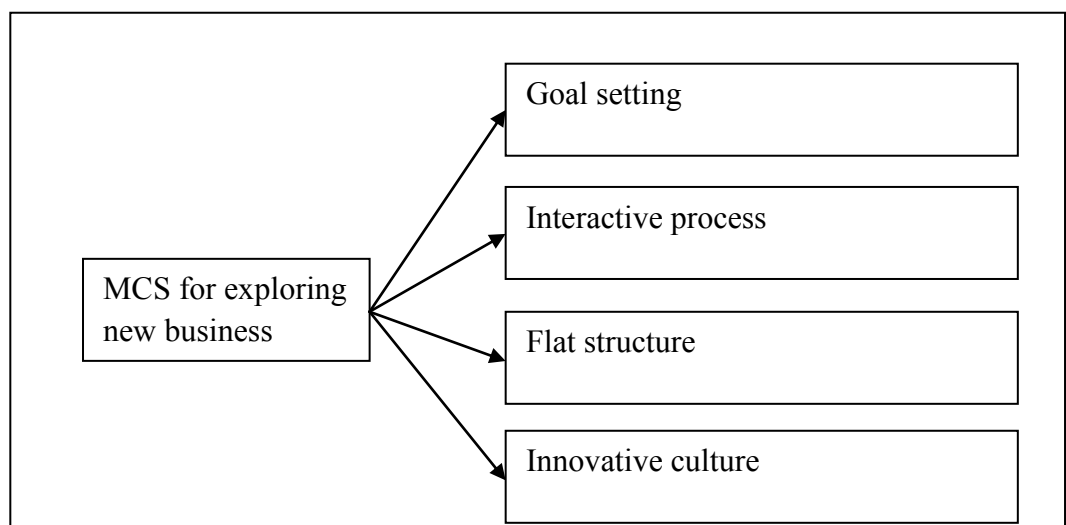


information to all the managers and department to monitor the changes and compare the results with pre-set plans and targets as well.

### 5.3.2.2 MCS for Exploring Businesses

In theme one, the MCS for exploring new business has been mentioned by the managers, and through the data analysis, and four sub-codes have emerged to support the use of MCS for exploring new businesses: goal setting, interactive process, flat structure and innovative culture. Managers explained and demonstrated how MCS can be used for exploring new businesses, and most of them affirmed there is a positive link between the two.

**Figure 5.6: MCS for Exploring Business**



**Table 5.5: Summary of Quotations of MCS for Exploring New Businesses**

	Sub-Codes	Quotations from <b>interviews</b> , <b>observation</b> and <b>internal document</b>
MCS for exploring new business	Goal setting	<p><i>The most important thing is how we can achieve these targets; the only way is to find more customers and more business. (18)</i></p> <p><i>I think these indicators do not prohibit employees from being innovative, on the contrary they must innovate to achieve the targets, it is easy to say, but difficult to do, in practice not everyone has the ability to innovate. (I9)</i></p> <p><i>After we set the indicators, they becomes generally rigid and hard control, but think about the ways of achieving them is on your own, however you can achieve them, you must follow the organization rules and regulations, and being flexible to operate, not everyone has to follow the same road, you must think your own way of implementing and achieving them in your situation. (I4)</i></p>
	Interactive process	<p><i>All the new production and management ideas come from bottom, the effective feedbacks from the employees and department through the frequent meeting and discussion. (I0)</i></p> <p><i>When there are needs from customers, which we have not had before, after we understand the actual customers' needs, we can design the new products by combined the several existing products immediately to meet the customer's needs, we react to the market very fast. (I10)</i></p> <p><i>Under some circumstances, we have some conflicts, for example, when the risks can be covered, and this risk control limited business development, in this situation, you have to innovate and break the rules and regulations, this process must be followed by communications and discussion process. (I13)</i></p> <p>One of the procedures of Friday meeting is bring up the new customer's demands, and discuss how to adapt the existing products and services to meet the new demands. (<b>Observation from management meeting</b>)</p>

	Flat structure	<p><i>Joint-stock banks and state-owned banks are also differentiated, state-owned banks' departments and units may be heavy, our department size is not large, we have six people, so it is a non-hierarchical, but cooperative group. (I3)</i></p> <p><i>Our relationship is relatively simple, because everything is simple, and the communication is efficient, we do not have strict hierarchy and constraints, it is suitable for young people, and this is typical characters of commercial banks. (I1)</i></p> <p><i>The employees are young, and we have less procedure when we do business, so the efficiency is high. (I2)</i></p> <p><i>I think flat structure is much better, it does not have many levels, and for example, it is easy for us to report the problems and changing situation, this kind of flat structure make communication easier. (I11)</i></p>
	Innovative culture	<p><i>Organizational culture statement: "Culture changes as the customer need changes" "Hard working, dedication, innovation" (<b>Organizational website</b>)</i></p> <p><i>Cultural influence is quite important, and our culture is to work hard and sacrifice, the culture changes as the customer need changes, even if there is no budget or the balanced scorecard, you need the organization culture, and it must be the most important thing to build up. (I1)</i></p> <p><i>I feel that corporate culture is a soft environment, how can you create this environment, our culture is customer-oriented, and constant innovation, meet customer needs. (I11)</i></p> <p><i>For example, we support business development and innovation from legal and compliance department, our compliance and legal culture has to be innovative according to the business innovation including the test process on the new products. (I7)</i></p> <p><i>We have a police which is to say "yes" and also to say "no" with "but", for example, it has risks to carry out the business, it's better not to do, but you have to say "but", how you can improve things and add relevant conditions which will cover the risks in order to make the business possible to continue. (I8)</i></p> <p><i>The first thing is to create the atmosphere; innovative atmosphere is very important for a team. (I9)</i></p>

### **Goal setting**

Managers in the RB and IB departments indicated that the plans, targets and indicators are not only used to control the organization activities and achieve the organizational designed goals, but also used to search for new business opportunities in order to complete the plan and targets. The goal setting is mainly through using planning, accounting control and performance systems; they are used to guide and encourage innovative behaviour to accomplish organizational goals by appropriate setting.

### **Interactive process**

The managers in the IB department and SB explained this view. Interactive use of MCS can stimulate communications between different levels and bring employee feedback and customer demands which help the organization explore the need for new products and detect new business opportunities. Therefore, interactive process facilitates organizational learning and innovation.

### **Flat structure**

Managers in the planning, finance and HR departments explained that compared with state-owned banks, the case organization adopts a flat and decentralized organizational structure with minimal division of labour, which integrates all the managerial functions and levels. Simplification design of organizational control structures has fewer hierarchies and boundaries which facilitates information flow and knowledge sharing in the organization.

The design of the control structure matches the organizational structure and model; flat structure designed according to the business features. The manager in the HR department commented: *“We are under ongoing reforms, our systems is flat which is based on the business features, and it not easy to operate in a vertical structure.”* (I11)

The organization focuses more on the team based performance controls. Within the organization, performance evaluation does not only apply to individuals, but also the different forms of teams. Performance measurement on team based structure can help stimulate information exchange and sharing in the team in order to search for new business opportunities.

*I can flexibly make their team to complete the different tasks; usually we make teams according to the related indicators, and then will find the persons who are in charge and make a team.* (I8)

*Team work can promote cross selling and help search for new customers.* (I14)

*The large and complicated structure will have strong control, while the simple structure is easy to operate and communicate. We focus on team work; and the flexible team structure can promote the organization development.* (I13)

Human affairs only can be managed at the higher level in the organization, which means the same level managers do not have authority to promote or demote subordinate employees. This helps avoid the negative effects of personal relationship. The general manager in SB expressed:

*Our structure is flat, for example, we do not have right to adjust the positions and claim for expenditure, all the sub-branches activities are controlled by branches, our job is just to do marketing.* (I14)

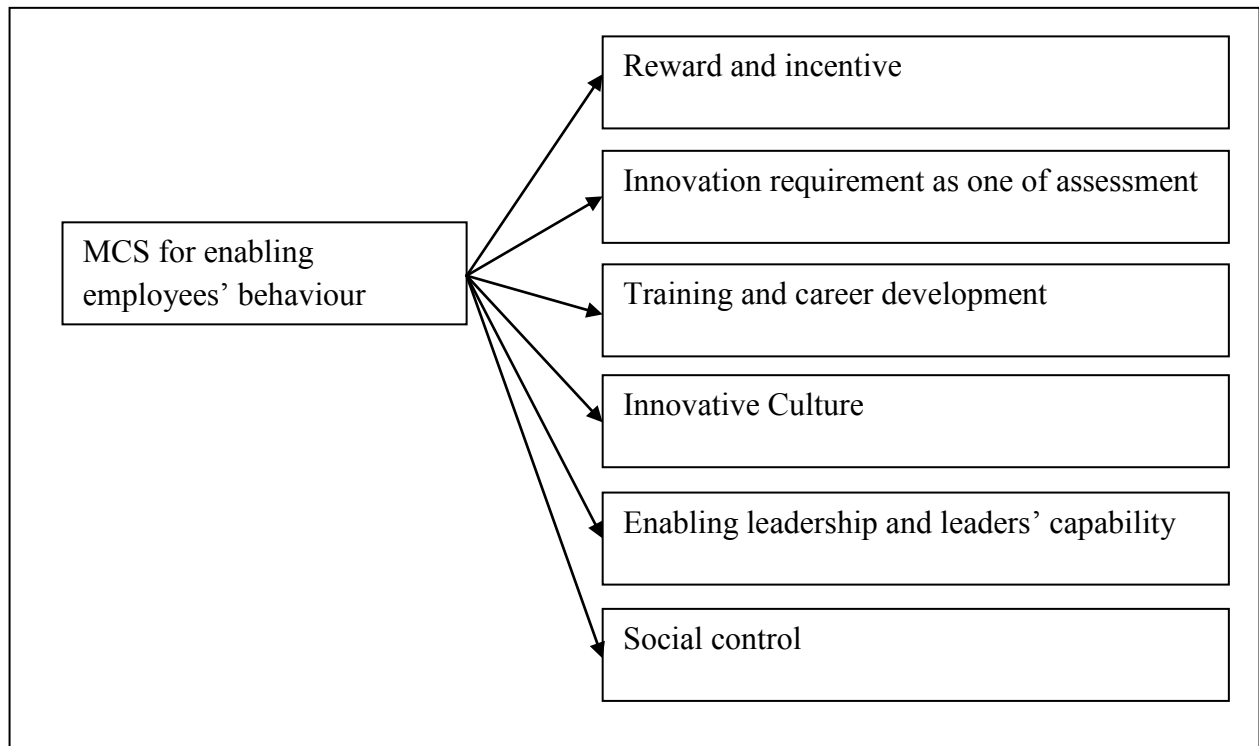
### **Innovative culture**

All the managers acknowledge the importance of the organization culture's impact on organizational innovation. They pointed out it facilitates innovation, pursues organizational innovation, promotes innovative values, creates an innovative atmosphere and encourages employees to innovate. The organization organizes all the culture activities like organization cultural festivals and an innovation competition. And all the evidence shows the cultural control is related to the innovation and it can complement the accounting control and organizational structure to promote business development.

#### **5.3.2.3 MCS for Enabling Employees' Behaviour**

MCS for enabling behaviour that encourages learning and creativity has been also addressed in theme one; the interviewed managers regard the formal control systems as a stimulator rather than a constraint on employees' creativity and innovation through using reward and incentive, innovation assessment, training and career development. Therefore, the formal control systems play a positive role in motivating people. The culture has been regarded as one of the important factors enabling people's behaviour, and the leadership style is being considered as crucial part in supporting this use.

**Figure 5.7: MCS for Enabling Employees' Behaviour**



### **Reward and incentive**

For encouraging employees to complete their targets, rewards and incentives are common control systems used by managers, and they are considered effective methods to motivate people used by the managers; managers reward employees by measuring their performance and also motivate them by giving an incentive bonus. Managers in the HR department explained:

*When I set the targets, these targets are normally reasonable and reachable, if they are not impossible to achieve, they will give up, so you will set your targets higher than your expectations based on your actual situation, they can be completed with their efforts, and followed with matched incentives which allows you to encourage you to achieve the goal.*

(I11)

*I control them through the plan, measurements and guidelines; I usually set the bottom line, there is larger space, I will motivate them through the evaluation and incentives, you will get higher rewards if you set higher targets. But if you cannot finish the targets, it will affect your incentive bonus. So everything is linked with your performance evaluation, which encourages you and improves employees' creativity and enthusiasm, and it also related with your promotion. (I12)*

### **Innovation requirement as one of assessment**

In addition to rewards and incentive systems, another unique approach they have been using is to set the innovation requirements in a personal assessment. Managers acknowledge that in order to promote the organizational innovation, they must motivate individual employees, because they are the source of organization's innovation. The learning ability and innovative capability requirements are on the top of the evaluation list, managers asserted that linking the innovation assessment on individuals' performance enhances the organizational innovation. Managers in the audit and SB expressed:

*The innovation evaluation is included in the self-assessment, like your innovative ability, learning ability, coordinating ability. (I5)*

*There are a lot of competitions which encourage and promote the innovation, also including the employees' appraisal and performance evaluation. There is a table for everyone; the employees much conduct a self-assessment first, then the managers in the department will re-evaluate his self-assessment. The evaluation including innovative capability, ability, skills, personality and performances, like innovation capability is 10 points, learning ability is 10 points, totally is 100 points. Innovation requirement as the content of assessment, including culture identity, collaboration with colleagues, relationships, ability of completing of work, so innovation is in the evaluation systems. (I3)*

To confirm this point, the director in SB explained that innovation requirements embedded in individual assessment linking to reward and punitive measures can encourage employees to be innovative.



*The hard assessment and control do not affect too much, to a certain extent, and self-appraises, rewards systems and the incentive; they all linked and work together to encourage the innovation, because we have innovation requirements on all of our assessment and evaluation systems, you must have some innovative examples to get the points. (I13)*

*All innovation requirements are embedded in the targets, our bank encourages innovation, if you stick to the old routine and do not want to be innovative, which is not allowed by the organization, the organization forces you to constantly have new ideas, so there is no constraint problem, it is always encouraging new ideas, in the performance appraisal which includes in the assessment of innovation, if you cannot be innovative, you lose score, then that will affect your performance and reward. (I14)*

### **Training and career development**

Training is playing a vital role in influencing employees thinking and behavior, the HR department is in charge of training in the organization, and there are three different levels of training, the head office training, branches training and sub-branches training. All the managers agree that it is very important to train the employees when they join the organization and through the time of working in the organization. Managers in HR department and SB explained:

*The culture is delivered from the training, we have a lot trainings including three levels training, the first level is from head office to branches, the second level is we train our own staffs, and the third level is the training for sub-branches. (I12)*

*I think the first of all is responsibility of job, and you agree with organizational culture, what can bring to you is not only the high income, but also provide you with a platform and opportunities to develop yourself and your future career. (I14)*

*You cannot say you must do it following this, you have to explain, people are not all care about money, they also want encouragement, recognition, learning opportunities and the*

*space for developing themselves and professional career, so the management can be in a soft way through encouragement and communication, which are all related to the leader's attitude, leadership styles and their vision. (I15)*

The organizational training and career development provide employees more opportunities to develop themselves. And all the managers support the training; they see it as part of organizational control process and they also take it opportunity to motivate employees to learn by improving their knowledge and abilities.

### **Innovative Culture**

In theme one, most of interviewed managers agreed organizational culture is a very important part of MCS and plays a vital role in organization management. Organizational culture influences the control process and control value, it also has huge impact on the way how employees work and communicate. Innovative culture creates an environment which encourages innovative behaviour and thinking. Managers in the PF department and SB stated:

*All kinds of the assessments promote innovation, rewards and appraisals are playing positive force, and the company culture also encourages you. (I3)*

*The visible systems constrain behavior, and the invisible systems control thinking, sometime the behavior and thinking can be consistent, so in practice you have to motivate them by organizational culture, culture festivals, and communications. However, for behavior, you must have performance evaluation, incentives which are hard control. You must have these two, and they must be combined in order to achieve better performance. (I15)*

Innovation competition becomes an important part of the culture festival, organization tends to create a facilitating atmosphere and stimulate innovative ideas by using innovation

incentives. Innovation competition can promote innovation by drawing attention to and encouraging innovative behaviour and actions. The director and general managers in the PF department and SBes explained:

*The organization tries to send a sign of encouraging innovation through his innovation festivals and competition; everyone would like to take part in, and the employees will bring this innovative thinking back to their normal work. (I1)*

*Innovation is as one of our priorities, and also a part of our culture, we have cultural festivals every year in April, and innovation is the most important part of this festival, we divided into five sections, information technology, retail business, corporate business, international business, and we also reward for some special products in demand. (I2)*

*I feel it is more important to inspire them by mental encouragement than rewards, and it is also crucial to create atmosphere and culture, which does not let them think they do their work just in order to complete the targets; otherwise, they will lose motivation to work hard and reduce their creativity and efficiency. (I15)*

### **Enabling leadership and leaders' capability**

Referring to the organizational culture, the leadership also plays a pivotal role in executing and building such innovative cultural values. Most of the managers have open, positive and active attitudes, they give necessary freedom and authority to employees which encourages innovative behaviour and activities and fosters innovative ideas and thinking in the case organization.

*The innovation is related with leadership, some managers are willing to give you freedom to do your work, some not; some only control the main direction, for the rest, you have your own flexibility to operate, but in our organization, all the managers are encouraged to give more space to do their work as long as you follow the rules and achieve their targets. (I4)*

*I think it depends on individuals and the organization as well, do they promote innovation or not, for example, we have sub-branches president, he is really willing to innovate, although he knows innovation is against the organizational regulations, but we have people and systems to monitor and check for him, if they do not say no, then he can carry on. If you always stick to conventions and do the same things, you will never have chance to develop; only being innovative can help you achieve that. (I7)*

*I always encourage people to learn new things, and raise new ideas, we have set up the innovation rewards, we will reward the people who propose the new ideas, and its purpose is to let everyone know that the innovation is encouraged. (I8)*

*For marketing staffs, I only reward them, never punish them. I think it is reasonable to set indicators for each individual at the beginning, later you must evaluate what they do, then they can do it well. (I14)*

Leadership is related to innovation, because leadership styles and leader capability determine the degree of empowerment. Managers in the PF SB expressed this view:

*If they do not have that thinking, rich knowledge or experiences, they cannot be innovative. So how innovative you can be is very important, we need innovation, as a manager and leader, you should be able to catch new ideas and opportunities and lead your employees. (I3)*

*The indicators are assessments are only the results, and innovation is a process, we set the targets, but we do not limit the process, we try to give freedom and let them do their job in their own way. And if they cannot see the benefits of innovation, they would not understand the creativity and innovation. (I15)*

The empowerment for innovation is usually given by managers through personal trust and relationships which enable and encourage experimental and innovative behaviour.

Managers in the RB and IB departments disclosed:

*I only pick the staff who I trust; I will try to inspire them and let them to do the experimental job, but I will keep monitoring and checking. (I8)*

*My personal opinion is to encourage innovation, but it's not like everyone has that ability. If I see good business opportunities, I encourage the person I trust to be innovative, and if something goes wrong; I will take the responsibility for them. (I9)*

### **Social control**

Social control is used by managers to foster innovation through social activities. Managers tend to use informal and social controls such as performance conversation, social events and social skills to facilitate communication and encourage the learning. Managers in the HR and SBes illustrated:

*For a big organization, the boss could use more rules and regulations, and evaluation, but for a small group, he may tend to have informal and social controls. (I2)*

*It is not a simply punishment, if the task is not completed, firstly we must analyze why it could not complete, it that because of external factors, or because they did not put effort. If it is caused by external factors, we will check is the process reasonable, are there enough staffs to make sure the task could be completed. If it is staff subjective problem, we cannot just punish them, we should guide them. My personal view is to encourage and guide them to complete the tasks in accordance with established guide, because everyone wants to do their job well, so you should try to motivate them. (I14)*

*If the team completed their targets well, I will take them out for a nice dinner, which makes them relax and free out of the busy daily work. I tried to build this platform to talk about certain topics, talk about successful skills and promote the communications. (I15)*

### **5.3.3 Discussion**

It was discovered in the first theme that MCS plays two main different roles in the case organization, the control role of MCS for controlling strategy, risks and behaviour, and innovation role of MCS for renewing strategy, exploring new business and empowering behaviour. This theme presents detailed explanations of how MCS can be used together in

the different functional departments and at different levels for fulfilling these two roles and carry out different uses of MCS, and the further discussion have been provided by linking the findings to the theoretical and empirical evidences in the literature.

### **Control role of MCS**

According to the literature review, the traditional control approach focuses on goal achievement, it is mainly used to ensure the organizational resources are deployed efficiently and effectively to achieve organizational goals and objectives through monitoring the process and checking the results (Van der Stede, 2000; Otley and Berry, 1994; Merchant, 1985; Anthony, 1965), and this view is fully supported by the findings from data analysis. Based on managers' understanding and experiences, MCS plays a vital role in the controlling strategy implementation and achieving organizational goals by using the traditional planning and accounting control and PMS. The annual plan is made at the beginning of year, and it is broken up into specific indicators allocating budgeting and BSC which used to highlight strategic priorities and direct attentions.

The integrated use of MCS has been found in the case organization. The organization uses three BSCs (overall BSC, retail business BSC and corporate business BSC) and connects them to each other, and they have also been tied to corresponding presidents', departments' and individuals' performance evaluation. Comprehensive use of accounting and performance systems integrates different managerial levels, different functional areas, different departments and individuals together and coordinates all their activities' efforts towards organizational goals and objectives. This finding provides new evidence to support the arguments in the literature review. MCS can be used as a package in terms of consistency and internal consistency is very important for organizational goal achievement;

organizations must make sure everyone makes organizational strategic priorities as their common purposes (Mundy, 2010). MCS can be used to help organizations align all the different goals between the organization and people within it in order to achieve organizational goals (Robert and Priscilla, 2002).

A new finding has emerged through the interview data analysis; the multiple-level performance evaluation system has been adopted and used in the organization. The evaluations on individuals are carried out anonymously from all levels of management in organization. The director, senior managers, subordinates all participate in evaluating individual performance, so individual performance evaluation is based on the multiple-level intergraded evaluation result, not single-level evaluation. Managers confirmed the benefit of this integrated performance evaluation system; it creates a fair evaluation environment and help the organization prevent the risks from individuals' personal relationship (Guanxi) which may have negative effects on the organizational performance. This system also eliminates dominating authority from hierarchy relationships; therefore, it also helps neutralize the negative effects of Chinese high power control culture. This new finding confirms Chenhall's (2003) proposition that the national culture is associated with MCS design, but it is lack of the supporting evidence and an argument from Robert and Priscilla (2002) that the design and use of MCS must be adapted and tailored to the particular culture characteristics.

It has been discussed in the literature that the traditional control role of MCS has been captured by cybernetic control and diagnostic use of MCS (Herath, 2007; Simons, 1995). Diagnostic use of MCS helps monitor and compare actual performance with pre-set goals, identify the unexpected deviations and carry out the corrections according to the pre-set goals; thus, diagnostic use of MCS mainly focuses on strategy implementation and goal

achievement which may constrain organizational and employee innovative behaviour (Abernethy and Brownell, 1999; Simons, 1995). The findings from interview data analysis are consistent with this view. Diagnostic use of budgeting and BSC mainly through management meetings helps managers monitor and check completion of organizational goals and objectives in order to solve the unexpected problems and keep organization on pre-designed track. In this process the innovative behaviours are ruled out for sake of controlling risks.

The case organization adopts strict administrative controls and punitive measures. Organizational rules and regulations are seen one as part of boundary systems which are used to limit and constrain organizational opportunities and search activities and employees' risk-taking behaviour (Chenhall, 2003; Simons, 1995). The case organization is the first organization to start breaking the Chinese domestic enterprise customs like the "Three Irons System" and introduced strict punitive measures such as the "Six Possibilities" mechanism; the employees will be dismissed, demoted or paid less, if they do not follow organizational rules and regulations or could not complete the targets. Linking organizational regulations and performance measures to the strict punitive measures enhance the effectiveness of control role of MCS in the organization.

Including strict administrative controls, the case organizational also adopts the independent audit and risk control systems which are operated by the audit and LC departments, because controlling risks is a priority of the bank. Based on literature, boundary systems are used to set the limitations restricting risk-taking behaviour and prevent employees from wasting the organizational resources by setting guidelines and regulations; however, it is also argued that in order to minimize the undesirable and negative behaviour and manage strategic uncertainty and risks they also stop employees from generating new ideas and



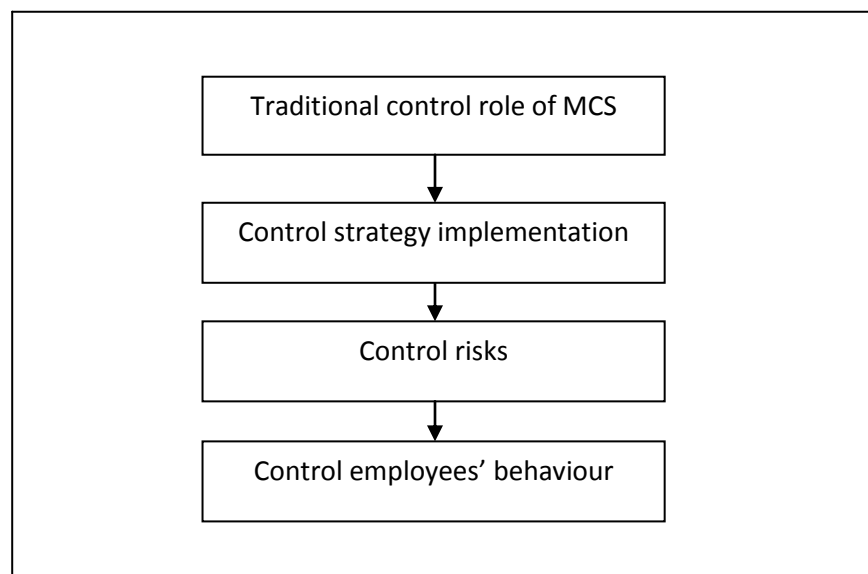
seeking continual improvements (Weick and Westley, 1996; Simons, 1995). The findings corroborate the arguments in the literature. The independent audit and risk control systems are used as boundary systems in the organization; they are not only used to identify, measure, and control the risks, but also used to set the limitations restricting risk-taking behaviour. Managers indicated that the audit and risk control systems are necessary for controlling the risks; however, to some extent, it restrains employees' innovative behaviour. This is supported by the literature review, the strict rules and regulations, and fixed audit routines limit the freedom and opportunities to experiment and explore the new ideas, the evidence is consistent with the traditional role of MCS which constrains the flexibility and hinders the innovation (Chenhall, 2003; Hartmann, 2000; Simons, 1995).

The centre of the case organizational culture is strict risk culture which emphasizes the risk control, because risk control is regarded as a priority of organization. This culture is shaped by shared risk values and beliefs. As discussed in literature, the culture control is designed to constrain organizational members' risk-taking behaviour and ensure that organizational goals can be achieved (Merchant and Van der Stede, 2007). The risk culture sets clear boundaries to constrain peoples' risk-taking behaviour which stifles employees' initiative and the organization's innovation. All the interview managers were aware of this risk culture and follow it strictly in the organization, in the context of the organization; risk culture is beyond the control of the managers (Clegg, Budon and Nikolova, 2005). The findings indicate that the leadership also has impact on controlling the employees' behaviours; most of the managers prefer controlling use of MCS. It also has been found that organizations tend to influence managers' leadership style though culture trainings and activities. This finding supports the view that the dominance of using MCS depends on the preference of individual managers and the shared value and attitude of professional groups

can also influence the particular use of MCS (Wouters and Wilderom, 2008; Alvesson and Karreman, 2004).

Overall the traditional control role of MCS is used for controlling strategy implementation. Risks and employee behaviour are specifically evidenced in the case organization; this traditional control approach plays a crucial role in controlling and directing the organizational activities and the employees' behaviour, setting the boundary to make sure the employees' behaviour are consistent with organization's goals and ensuring the organizational goals are achieved. Furthermore, this control role of MCS connects three different uses of MCS in three levels from top management to middle and lower management. In this process, integrated formal and accounting control systems are complemented with informal and culture controls to carry out this traditional control role.

**Figure 5.8: Traditional Top-down Control Role Pattern in Case Organization**



### **Innovative role of MCS**

The traditional control role of MCS has been found in the case organization, the innovative role of MCS has also been discovered through the data analysis. The evidence demonstrated that the flexible use of traditional accounting control and PMS can facilitate decision making and organizational learning process. Flexible and adaptive BSC gives more flexibility to managers and allows them to consider their regions' advantages and use the regions' resources effectively to achieve their goals and targets. The 10% deviation rate in budget also gives managers freedom to experiment and search for new opportunities. Therefore, flexibility in accounting and performance measurement systems can encourage and stimulate organizational opportunities and search activities and innovative behaviour, which is consistent with the literature. Flexibility and adaptation has shifted the use of MCS, flexible and innovative forms of MCS can help organizations manage the unpredictable settings; they provide flexible frames to communicate which encourages people and fosters learning and innovation (Frow, Marginson and Ogden, 2010; Zollo and Winter, 2002; Weick, Sutcliffe and Obstfeld, 1999).

The benefits of interactive use of MCS have been confirmed through data analysis. The three-down-two-up interactive budget process involves managers in a negotiation and discussion process of making budget plans which facilitates the strategy formulation process. This finding is supported by Davila (2000) and Simons (1995), interactive processes before other levers of control can allow everyone to challenge the new ideas and new strategies prior to implementation which give freedom to managers and triggers the discussions that lead to desired outcomes. If the managers use the interactive process after other levers of control, the managers will attempt accept the plans and ideas rather than

have the chance to challenge them (Kober, Ng and Paul, 2007; Naranjo-Gil and Hartmann, 2007).

Managers in the case organization agree that the interactive use of budgeting control and BSC during the strategy implementation stage also encourages the communication and dialog and, in this process, interactive control plays an important role in challenging organizational standards and goals and provides the environment for the innovative behaviour (Henri, 2006; Bisbe and Otley, 2004 and Abernethy and Brownell, 1999). In the case organization, the meetings and communication have taken place regularly to discuss the completion of the indicators in the BSC. The feedback is used not only for changing the input or the process to meet the performance standards in the future which facilitates the single-loop learning (diagnostic control) (Simons, 1995; Anthony, 1965), but also used to challenge the standards and adjust them to suit the changing market and environment, which is called the double learning loop (interactive control) (Marginson, 2002; Simons, 1995 and 2000). So the managers do not only use MCS for correcting unexpected activities and keeping the plans on track, but also use them to challenge the existing plans, targets and detect the needs for strategic adjustment and change. It is consistent with the theory of single-loop learning and double-loop learning (Argyris and Schon, 1978) and diagnostic and interactive controls (Simons, 1995). Single-loop learning (diagnostic control) can be part of organizational learning, but it is mainly used for controlling, while the double-loop learning (interactive controls) can be used to enhance and expand organizational capacity for innovating.

Independent audit and risk control systems are also used interactively to challenge the organizations risk regulations and standards in order to adjust the risk boundary to meet business needs. This finding provides the evidence to support that interactive use of

boundary control systems, through flexible routines and interactive processes, can encourage the adaptation and innovation (Jørgensen and Messner, 2009; Ahrens and Chapman, 2004). Another interesting finding has emerged, the case organization uses more than one control system interactively, Budget, BSC and risk control system are all used interactively to challenge the pre-set goals, indicators and risk boundary in order to search for new opportunities for emerging strategy. This is contrary to Simons' (1995) view that organizations only have one interactive system, but is consistent with Kloot's (1997) study which identifies that many control systems can be used to enable higher level learning.

There is an interesting finding arising from the data analysis. The learning ability and innovative capability requirements on individuals are embedded in the performance evaluation system which is used as diagnostic control to encourage individual learning, while controlling the direction and scope of learning in order to enhance and drive the organizational innovation in the designed way. This finding is opposite to the literature, PMS used as a diagnostic control is designed to control employees' behaviour and eliminate deviations which usually have negative effects (Widener, 2007; Simons, 1995). The evidence from data analysis extend the understanding of the use of PMS and diagnostic control.

As identified in the literature, organizational structure is regarded as a fundamental control element (Ferreira and Otley, 2009). The case organization tends to adopt a flat structure. It mixes less hierarchy with more businesses features and all the department units are simplified with fewer positions; therefore, individual employees usually are required to take different job roles at the same time. Team based structure is adopted widely in the case organization; crossed teams are formed according to different business tasks and customer needs. This type of structure prohibits bureaucracy and encourages horizontal

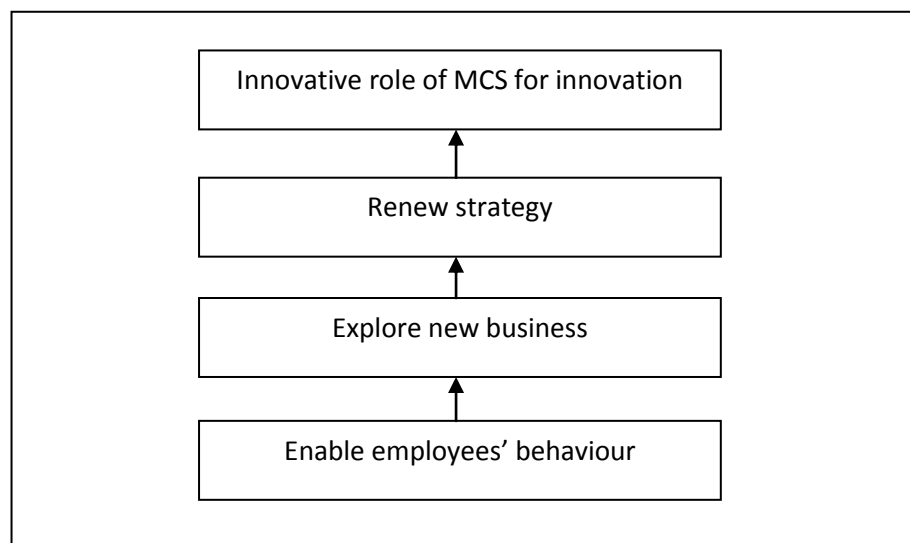
communication and cooperation among different levels which facilitates organizational learning and support innovation. This is supported in the literature, learning organizations usually are less structured with a high volume of informal communication -- they have fewer hierarchies, flatter structures and few managerial levels and positions (Coopey, 1995; Bartlett and Ghoshal, 1993). This type of structure focuses on horizontal relationships, rather than the vertical relationships (Otley, 1994).

Compared with risk culture, another side of case organizational culture is innovative culture. Organizations tend to promote this value by using all kinds of activities like the organizational culture festival and innovation competition; therefore, organizational culture is not only used to control risk-taking behaviour, but encourage innovative behaviour in the case organization. The finding supports the literature, flexible and innovative culture can be used to increase employees' motivation with other control systems and enhance ability to adapt to change (Macintosh, 1994).

Leadership style plays important role in encouraging innovative initiatives and behaviour as well. Enabling leadership can empower employees to make decisions without being restricted by strict formal control system, so this type of leadership can involve subordinates in the decision making process and encourage individual learning (Abernethy, Bouwens and Van lent ,2010; Yukl, 2005). In the case organization, the personal relationship (Guanxi) which is built on personal trust offers a way to empower employees. The managers usually pick and encourage employees to experiment based on personal relationships and trust. Managers also use social control skills like performance conversations and take advantage of social activities to encourage employees and facilitate learning, which demonstrates that social control is relevant to innovation (Tushman and O'Reilly, 1997).

The innovative role of MCS is used for renewing strategy, exploring new business and enabling employees' behaviour is demonstrated in the case organization. This innovation role of MCS plays a vital role in enabling and motivating organizational activities and employees' behaviour and encouraging organizational learning and innovation. The innovative role of MCS links all the management functions of organization which encourages the horizontal co-operation, facilitates communication and information flow among all the management levels, transfers the new ideas and from bottom to the top drives the organizations strategic renewal and innovation. The informal control systems and formal control systems are complementary to contribute to this innovative role of MCS in the case organization.

**Figure 5.9: Innovative Control Role Pattern in Case Organization**



#### **5.4 Theme 3: The Balance of Tensions between the Different Roles of MCS**

The different roles of MCS for controlling and innovating have been identified and specifically explained previously by the interviewed managers in the investigated organization; the tensions between control and innovative roles of MCS have also been

revealed. After analysing the interviewed data, three main pairs of tensions have been pointed out by the interviewed managers, including the tension between different uses of MCS for controlling and renewing strategy; the tension between controlling risks and exploring new businesses; and finally the tension between controlling behaviour and empowering behaviour. So this section is going to describe these three tensions and explain how the organization and the managers try to balance these tensions based on their practical managerial experience.

#### **5.4.1 The Tension between Controlling and Renewing Strategy**

According to the managers' account, the tension between uses of MCS for controlling strategy implementation and renewing strategy is regarded as the basic tension in the organization by the managers. This tension is generated when organization attempts to pursue both pre-set goal achievement and adaption to the environment change at the same time. The director and general managers in the PF department and SB clearly addressed this tension in the interviews. They argued that this tension only appears when they face the changing situation and environment:

*We make budget and annual plans, and then we got to follow them and complete them on time, so our implementation and evaluation are very strict. We have to make them strict to make everyone do their job and finish their targets; otherwise it does not have any meaning. And at the same time we also need to get relevant information to validate plan and make sure we are going in the right way. (I1)*

*We are facing this kind of conflict, it does exist, we need to hit our plans and targets, and we also need to update them, because everything is not certain, but this kind of conflict only appears at certain time or certain point, however they are not conflicting in the long term. (I2)*



*We need to hit the targets, and we also need to do the adjustments according to the changing situation; the indicators will be adjusted according to the actual operating conditions, market environment, products features and business life cycle. (I13)*

Most interviewed managers confirmed that this tension exists in their organization; however, this tension is reconcilable through making the necessary adjustments to drive strategic renewal. The deputy manager in the PF department commented: *“I think we need to consider both sides, because they are all important, and they are not contradicting to each other all the time, because the priorities change with the changing situation, you have to adjust constantly according to the changing situation”* (I3). These managers have affirmed the importance and necessity of uses of MCS for both controlling and renewing strategy; they are all vital to organizational success. They contradict each other in the short term; however, they claimed that it can be balanced and compatible to each other in the long run.

As mentioned in the theme two, the case organization adopts the three-down-and-two-up budget process, 120 scores of BSC (required to complete 100 score only) and the 10 % deviation rate (allows you exceed or under-spend) are given to managers. The interviewed managers considered that these flexible routines and structure gave them so much freedom to experiment and create the opportunities and solutions in the way that best achieved the desired goals and met the changing market. The manager in the IB department noted that *“Controls are just goals and results, but you can operate flexibly during the process.”* (I10). The director of the bank also explained how *“The plans and indicators are clear, and we have to follow them, but think about the process we have in place, they already solve the disagreements and give certain flexibility to operate, so the main direction is secured, but how you are going to achieve it all depends on you.”* (I1).

The reward and strict penalty rules are also linked to the strict budgets and BSC. The managers in the RB department claimed that they are still kept within the bounds:

*“comparing to before, it becomes more flexible, but it does not mean you can do whatever you want, everything is still constrained, you only have a little space to be flexible and responsive to the change, and you must be aware of the pitfalls and try to avoid them, because you have to pay high price for that”* (I8). Those managers’ comments clearly denoted that the relationship between MCS for the strategy implementation and adaption is contradictory. Nevertheless, it can be balanced by adopting strict accounting and PMS with flexible and adaptable structure and routines in the organization.

The balance of the tension between the uses of MCS for controlling strategy and renewing strategy has also been achieved through using accounting control system and PMS diagnostically and interactively. The managers indicated balanced use of MCS diagnostically and interactively does not only allow managers to pursue goal achievement, but also facilitate the environment for the fostering new ideas and making necessary changes which help managers manage and balance the tension between uses of MCS for strategy implementation and strategy renewal. Managers in the PF and the RB departments demonstrated:

*We set the targets at the beginning of the year through the meetings, then we will have a lot of meetings, trainings, competitions, and other measures help us implement and achieve the targets, in the implementation process, we need to use interaction and get information which aim to help complete and adjust the targets as well.* (I2)

*The indicators may constrain you, but the process of making and using these performance measures will not constrain you, before we make them and during we implement them, we will ask for opinions from different departments, there is feedback and interactive process, all the issues and problems will be solved during this negotiation and discussion process, so the measurement and assessment normally would not control us, but play a positive role.* (I8)

The frequency of adjusting the indicators and plans depends on the importance of indicators and the changing situation, the director and manager in SB commented that they cannot adjust them frequently because that may threaten existing strategy and plans. So all the indicators in the BSC and budget plan will be reviewed and adjusted at a certain time, such as quarterly, half-year time and annually, or when they are truly needed.

*You need to check the validity of the plans and indicators, but you cannot discuss and the dispute plans and indicators very often, people will be confused and lose their direction, and do not know what they really need to do, so you have to keep a balance on that. (I1)*

*They conflict sometime, but you just need to manage at appropriate way. We have our existing plans, if any unexpected situation occurs; we try to update the plans and targets, but implementation and execution of existing plans always at front. You have to stick to your plans, and adjust accordingly when you feel there is need and conflict is arising. (I13)*

Managers described that the information channel is crucial for achieving and renewing plans; the information channel can be used to transfer information for correction purpose, or it can be used to communicate for adjustment purpose, and this channel is based on the organizational integrated information system. General Managers in the SBes suggested that this integrated information system must support open and multiple-way communication channels:

*We have plans targets and indicators, but they do not remain same forever, we always use the information system and communicate with the middle managers and frontline employees to get market and operation information to evaluate our plan, targets are reasonable or not. (I14)*  
*The flexibility and control is contradictory, you have to stick to your plan and request them to follow, and you also need to feedback information and discuss them timely across all the departments. (I13)*

#### 5.4.2 The Tension between Controlling Risks and Exploring Business

The tension between different uses of MCS for risk control and business exploration is also regarded as one of main tensions in the organization by the interviewed managers.

Managers stated that the bank industry itself is a high risk business, so one of the priorities for them is to build sound control mechanisms to control and manage risks, while at the same time keep looking for new customers and exploring new business to maintain profitable growth. All the interviewed managers recognized there is a clear tension between these two organizational demands:

*Innovation is necessary, but risky, there is resistance, naturally it is a change, we have to manage change, and at the same time we got to control risks, and all the plans and assessments are used to control these risks. (I3)*

*We need innovation and we encourage innovation all the time, but we also need to control the risks, the rules are strict, you cannot break them. (I5)*

*There is always contradiction, you have to explore new business and new products and expand market, at the same time you have to control the risks, and it is difficult to balance it, especially for the front line employees. (I6)*

*The conflict between business development and risk management exists, how to balance the quality and speed, when business grows, you should not forget the risks, if you forget to control the risk, you will be in trouble, even your business is running good, so they constrain each other sometime, and you must coordinate these two. (I12)*

These two different kinds of needs are both important for the organization; they must be equally developed to achieve effective control on the risk and innovation on business exploration. Managers in the audit department and in SB acknowledged:

*From another point of view, the strict risk control is also the source for development. The innovation and risk control are not conflicting, but we just need to keep the balance between two, then there will be no tension. (I4)*

*On one hand, our organization is encouraging innovation, on the other hand emphasizing regulations to control the risks, no one is stronger than the other, and they must be developed at the same time. (I5)*

*It is unstable that you do not encourage innovation and expand your business, or you are regardless of risks to be innovative. (I15)*

The managers in the LC department and SBes argued that they cannot be equally balanced all the time; the focus on risk control and business exploration may be shifted according to the organizational priorities at a different period of time.

*The conflict is inevitable, sometime you feel intensive, sometime less intensive, and it lies between our risk control department and marketing department. (I7)*

*These kinds of mechanisms push you to continuously learn and innovate to promote innovation and development, they also restrict you with strict regulations and risk controls, there is a contradiction, we try to balance them constantly, but the focus is not the same for each period of time. (I12)*

*If you ignore the risks, which will cause huge loss, the profit you make will become nothing, if you only focus on the risk, and you do not care about your business performance or profit, there will be no future for the business, so these two are contradictory, but they must go together, then organization can go further, without considering either of these two, organization cannot go far. (I15)*

Managers in the audit and the LC department argued this tension can be managed, and that the innovation is allowed and encouraged within the risk boundary. They encourage the innovative behaviour to explore the new opportunities to achieve the targets:

*There is tension there, but it is manageable, it is all about where you put your focus. You should think about the risk control when you want to make innovation happen, the risk consideration always comes first, you have to take the risks into account and follow all the rules and regulations. So the systems operates like this, you cannot change anything, but follow them. Actually you can do some internal innovation, for this kind of innovation; you do not need to break the regulations. (I5)*

*Generally speaking, innovation cannot be carried out without regulations, the first thing you need to do is to think of rules and regulations, and have you broken the regulations or not, this is the first thing to review your innovation. (I6)*

*On the surface, the marketing management and risk management constrain each other. Actually without a sound risk control, you may go to the wrong way, so in our organization, we call it “compliance creates value”, they are actually complement each other, based on the good risk control, the employees are encouraged to be innovative, because we will monitor it, even they make mistakes, we can identify and control them. (I7)*

As discussed in theme two, the role of MCS for controlling risks has been accepted, the independent audit and risk control systems help managers set strict boundary to control the risk. Some managers demonstrated this tension is manageable in another way. This tension can be balanced by using an audit and risk control system interactively which allows new business ideas to challenge and extend the existing risk boundary. Managers in the LC department and SB illustrated how this tension can be balanced in order to support each other to meet organizational different needs:

*Legal review function is to prevent risks, to certain extent, the business needs to break through the bottom line for further development, sometimes, the supervision and regulations are very vague, so there is a blank and grey area, we have to fill the blank, and legal compliance review, constructive comments and suggestions also play an important role in identifying the blank and renewing the boundary. (I6)*

*In fact, I did not feel there is obvious conflict there, they conflict each other, and you got to have specific measures to balance them. We have risk control and monitoring system which*

*is used to find conflicts and non-coverage risks, and we take suggestions for adjustments based on business development needs. (I7)*

*The principles set the bottom line; the innovation has to follow these principles, normally you cannot break them, it is irresponsible for you and organization. However we always listen to the marketing people, if there are conflicts, we will discuss them with managers in law and compliance department to check do we need to make some breakthroughs on the regulations for business development or not. (I13)*

*For the regulations, it is unable to break them, which will cause serious consequences, you should feedback up to audit, for the commons problems, and they will discuss them and adjust accordingly. (I14)*

*Innovations are generally specific things, for some circumstances, we have rules in place to prevent the mistakes, the innovation is from market and customers' needs or staffs' demands, you must make breakthroughs to make some progress (I15).*

According to managers' experiences, they tend to break the organizational boundaries which restrict innovation activities, thus this tension is balanced through the interactive use of risk control systems. The interaction between business departments, the audit and LC departments can constantly check, monitor and challenge the existing risk boundary, which helps the organization maintain and adjust the risk boundaries according the organization's and markets' needs.

### **Organizational innovative and risk culture**

The organization tries to develop a dual cultural character, encouraging innovation and enhancing risk control. The general manager in the SB stressed and explained that because both of them are crucial to organizational success, these two different kinds of cultural values are promoted in order to meet different organizational needs.

*Control exists in any businesses in the organization, the banking industry is a high risk industry, and control can help avoid the risk. Innovation is the corporate culture essential which help the bank survive and remain undefeated, so the bank must be innovative; the risk control culture is also the foundation of organizational culture. For example, for a ship, the body of a ship cannot be broken; the innovation is just like a sail. The ship would not sink if the body does not break, but how fast and far it can go depends on a good sail. So they are reinforcing each other. (I3)*

Organizational culture becomes a balancing device, which helps the organization adjust the focus in order to balance the tension caused by environment changes and internal demands. Managers in the PF, LC, and RB departments stated:

*This contradiction is inevitable, but it will not make you think there is nothing to do with it. It depends on the organizational culture, if organization focuses on stability, you may not do any kinds of risky business, but if organization pursues profitability, you may encourage doing the business with slight risks. (I7)*

The organizational culture focus has been changed according to organizational transformation, from entrepreneur culture, scale culture and risk management culture to management-oriented culture. The director explained that “*Different times, we have different culture, we keep developing our culture as organization develops*” (I1), and manager in sub-branch reinforced this point: “*we have to adjust our culture according to the development priority, which is the first step we start letting people know the direction*” (I14). Organizational culture as guidance is used to address the organizational focus and priority. The manager in the RB department argued that the organization culture must be supported by the formal control systems and organizational culture would not have any impact without supporting formal control systems:

*I think the culture guidance is the most important thing, but the culture needs to be supported by the rules and regulations, we know the risk control is priority in*



*organizational culture, and it must be supported by our internal control, which evaluates all the functions and control the risks. (I8)*

### **5.4.3 The Tension between Controlling and Enabling Employees' Behaviour**

Another tension between the control and innovative roles of MCS is on employee behaviour which was identified and clarified by all the interviewed managers in the organization. The manager in the international department commented, *"If everyone is innovating, who is going to finish the job, if no one is thinking of innovation, how can we survive, we want employees to stay focused on their job, and we also want them to innovate.(I9)"* On one hand, managers need to control the employees' behaviour to ensure the designed targets and plans are achieved, while on the other hand, they also need to enable and motivate employees to complete plans; moreover, they need to encourage them to learn and innovate to drive organizational innovation. The general manager in SB clearly described this tension:

*Too much flexibility means no control, and too much control would not give any space for marketing people to explore the new opportunities, so it requires a balance, however it is not a complete balance. The balance depends on importance of learning and innovation, you should think are they suitable for organization strategy and development and environment, if you think they are really crucial and have positive impact, then you should give them space and encourage them to innovate. And if the market is stable, you want to expand it, you should encourage them to learn and innovate, if you think the market risk is too high, and the environment is not good, then you put a bit more control on them. (I13)*

Managers in the LC department stated that this tension appears sometimes: *"It makes you feel there is a conflict, actually no conflict, it depends on how you keep the balance."* (I7).

Managers explained that this tension can be balanced through using fair performance evaluation, integrating individual and team evaluation, combining extrinsic and intrinsic

motivation, balancing empowerment and accountability, fair culture and leader's discretion. Due to the negative control from strong personal relationship and high power distance in China, the case organization makes a great effort to eliminate these negative impacts and promote fair evaluation in order to balance the tensions between controlling and enabling employees' behaviour and meet organization's needs.

### **Establishing fair performance evaluation systems**

In order to balance the tension between different uses of MCS for controlling and enabling employees to innovate, the organization must adopt a clear, detailed and fair performance evaluation system, and ensure organizational fairness and employees' satisfaction.

Managers in the IT, RB, HR and SBes stressed this point:

*When the organizational regulation and reward and punitive rules are clear, their authority and responsibility are clear, how much you did, and how much you should deserve, on this basis, everyone will be motivated to do their job, so every organization must build this sound, clear and fair systems. (I4)*

*The rewards and punishment in the bank are very clear, all have their reasons, and they have the reasons for the punishment; and the reasons for the rewards as well. And a good organizational which can attract employees' must have a sound and fair evaluation system. (I8)*

*How much you get paid must be equal to how much effort you put into, in this fair atmosphere, people will feel being treated fairly, and then they will have motivation to work and innovate. And if it is not equal, they will not think about innovation. (I11)*

*State-owned banks foster bureaucratic and lazy thinking, but in here, we have less staffs, more work, moreover we have effective and fair performance evaluation systems. (I12)*

*The performance evaluation is very important, it must solve the fairness problem, and they must be measured in details. (I14)*

Clear and fair performance evaluation is the key to keeping employees motivated, and it has been mentioned that there are things that cannot be measured by performance evaluation measures; therefore, managers have to use their social skills and recognition to compensate in another way. The general manager in the IB department explained:

*If they do good job, naturally they will get reward and bonus, if they cannot finish, they will get punishment, but sometime what they contribute may not reflect in the evaluation result. For example they got the same result; someone is working really hard, someone is just lucky to get that result; so as managers we have to notice that and find alternative way to reward the hard-working people. (I9)*

### **Integrating individual and team evaluation**

Managers confirmed that integrating individuals' evaluations with teams' evaluations can make individuals focus on their own work and also encourage employees' initiatives and contribution to team goals, as well as promoting coordination and creativity which help resolve the tension for control and innovation dual-goal demands. Managers in the HR and SB acknowledged:

*Our assessment is not only focusing on individual result, but also team result, like if your result is 100 points, but your team only got 80 points, then I will get you 80 percent of your individual points, this helps individuals get involved in their team work rather than just do their own job. (I11)*

*As far as I know, in state-owned organization, it's like a big pot, responsibility and authority are not clear, which tends to limit people's initiative, if you want to make business successful, you must have a clear and fair individual assessment, and you must also link the individual assessment to the team performance. (I12)*

*We want the individuals to complete their own tasks, but we do not want them to only focus their little corner, we expect them to get involved in team work and cooperate with others to create new ideas and business opportunities. So the evaluation must be combined individual level with team composition. (I14)*

### **Combining the intrinsic and extrinsic motivation**

Including having a fair performance evaluation system, managers also suggested that combining the intrinsic and extrinsic motivation is also crucial for reconciling the tension between controlling and enabling employees. Managers tend to use the formal control systems like incentives and rewards, including high salary and promotions to improve employees' extrinsic motivation and encouraging them to complete the targets. At the same time the managers' encouragement and recognition, training, career plan and self-development promote employees' intrinsic motivation to encourage them to learn, which fosters the organizational learning and innovation.

Managers in the IB and HR departments illustrated that formal control systems can be used for increasing employees' extrinsic motivation to complete their tasks, like incentive and reward systems:

*The targets are the number, they have to be completed and achieved by person, and people's initiative is unlimited, how can you motivate them mainly are through rewards and encouragement. (I9)*

*We have rewards for the employees who complete targets on time or over complete, all the result will be informed and good result will be rewarded. (I11)*

However, the managers in the HR and SBes argued that the extrinsic motivation mechanisms must be used with intrinsic motivation measures to balance the control and

innovative roles on employees' behaviour. The formal reward system must be used with self career development, training and social and culture controls to keep employees self-motivated to learn and innovate:

*Culture, leadership style, encouragement are very important, all the work must be recognized and appreciated. We try to create fair environment, and also pay attention to personal development, their initiative must be from their heart, not from my request or constrain, and they must be willing to do their jobs. (I10)*

*First, the targets must be set differently to different people, and the targets must be reasonable, second, you must pay attention to create the environment and use of encouragement skills, like talking about good results through meeting, or putting it on the board or informing their supervisors. (I13)*

*I make it clearly, firstly I want to develop themselves, through this platform, through study and practice, and also prove them own value, so they will have initiative and passion to do their jobs. (I14)*

### **Balancing empowerment and accountability**

The manager in the LC department agreed that controllability and empowerment both are important to employees' behavior; any of them absent will cause poor performance:

*“According to your job responsibility and regulation, they must be very clear about what you can do and what you cannot do, if the accountability and responsibility are unclear, people will lose their direction and initiative” (I6).* Managers in the PF department pointed out that in order to reconcile the tension between uses of MCS for controlling and empowering the key is to balance the empowerment with accountability. Strict rules, regulations and performance evaluation are established to shape the responsibility role of employee in the organization. They make employees take responsibility for their behaviour

and results. Managers usually give employees' freedom and encourage them to innovate in the process to achieve the targets, but place tight controls on the result:

*I do not feel there is tension, because one is goal, another is process, goals are clear and specific targets to be accomplished, and but you can make innovation and improvement in the process, improve the service quality and efficiency in order to achieve the target, so I feel innovation is very important, these two are complementary, one is to show where you should go, and another is about how to do. (I3)*

Managers tend to use the social interaction (performance conversation) and social events to find out the sources of problems and deal with unexpected problems, including working problems and personal problems. Managers in the finance and SB found out that informal interpersonal interaction enables employees to get involved in the decision making process and deal with the unexpected events. Social controls play an important role in solving the problems caused by accounting control:

*They are hard indicators, for example, if you cannot complete them, you will get low wage, and there some other punitive measures, but at the same time you need to find out the reasons based on different situations and solve them. We treat staffs very restrict, but we also learn how to give praise to them, like giving pat on their shoulders, nodding to show agreement and approval, invite them to dinner, I think these soft, non-material things, spiritual things are very important as well. The tough restriction will constrain staffs behaviour and reduce their motivation, but these soft, spiritual things may compensate in another way. (I2)*

*Our assessment is very serious and strict, no matter what happens, we stick to it and execute it, then we will try to find out the problems, if it is personal problems, I will let other colleagues to talk to him. If it is whole branch's problem, like structure problem, performance evaluation systems problems or strategic problems, we will analyze it, discuss them and try to solve them, but the first thing is to implement and execute them, otherwise it will lose its effectiveness. (I13)*

The deputy manager in the HR department revealed that personal relationship, “Guanxi”, plays a vital role in empowering employees’ behaviour based on personal trust in the organization: *“Hierarchy is part of culture, we believe that the shortest line between two points, while in China is not, and is not a straight line between two points, culture, ideas, values and ways of operation are not the same, in this situation, it has its own optimal solution.”* (I2). A manager’s discretion, the personal trust and relationship encourages risk-taking and exploratory behaviour under their authority. They also enable employees to explore new businesses and break the boundaries, work beyond their general job role and get involved in strategic activities. Managers in the audit, LC, and international departments illustrated:

*At first, there must be a clear line between authority and responsibility; they are based on job principles and performance targets you have to achieve; anything beyond that, you have to make the decision to let subordinate to do or not, because sometime you can see the good opportunities others cannot see, of course you have to take that responsibility if anything goes wrong.* (I10)

*The regulations are strict, but it does not affecting innovation, the innovation cannot exceed the regulations, you cannot change the regulation for innovation, you must implement strictly following the regulations, but comparing with organizational rules and audit check, my understanding may be a little flexible, I can give some space if it is really necessary, and it depends on different situations.* (I5)

*Sometimes there are also the contradictions, especially for marketing persons, they have to do some breakthroughs but cannot be large, I only allow them break the necessary obstacles which really constrain the business.* (I13)

Managers try to improve employees’ self-control and autonomy to balance the control and empowerment because self-control can make employees commit to goals and take responsibility of their work. It also helps reduce employees’ opportunistic behavior. Self-control is enhanced by employees’ self-evaluation, fair evaluation, and a combination of

hard and soft controls. Autonomy is based on intrinsic and extrinsic motivation and culture environment. Managers in the LC, retail, IB and HR departments stated:

*There are some soft things, such as their professional ethics, and personal behaviour, or evaluation from community, these are soft, there is still something hard to restrain you, but also including self-constraints, the things I do may not against the regulations, but it may be immoral from professional ethics perspective. (I6)*

*I think the regulation is one part in the whole systems, the systems made by the head office is mandatory for the employees who just joined, it is kind of education for them to let them know which is not allowed, but for the people who have experience, that becomes a kind of self-control. (I8)*

*You may do it well when your leader and supervisors are there, and he would not do it well if they are not there, that is not the case, they must do it well, there are something forcing them to do it well, first, we treat them very well, and make better environment for them to work, this is hard control, and it also has soft control, if the customers do not satisfy your work, they can make calls to complain, and you will get punished. (I10)*

*Because we evaluate them by their performance, and they will get paid by their performance level, I cannot give everyone same, this competition between the employees can promote learning and innovation, and there is also autonomy, they will do their job even I am not here, because we have strict and fair performance evaluation systems. (I12)*

### **Fair culture and influenced leadership**

Chinese culture has unique features which reflect special personal relationships such as hierarchy and high power dominating business practices. And these unique features may



have considerable negative influence on the organizational control which leads to unfair evolution on individuals. However, the organization is making a great effort to promote democratic culture by making performance evaluation clear, transparent and fair to individual. Managers in the PF department and the RB department explained:

*Because of overall corporate culture creates a fair environment, make each levels are equal. This is part of our culture, we reward people for a reason, and we punish people for a reason, if you contribute more, then you will get more, we have very clear reward and punishment rules, but sometime, it is also flexible on the punishment, if you are in a special case or under special situation. This is our culture. (I2)*

*Not like before, everything was not clear, now we make everything clean and fair, we will promote employees according to their performance, not by age, and our bank is focusing performance evaluation, you will be paid more, if you work more, clearly our culture is more democratic. (I8)*

Moreover, the organizational culture of the investigated bank is largely based on family culture, which focuses on more social and personal concerns rather than only on performance and targets which enhance employees' job satisfaction and motivation.

Managers in the LC department indicated:

*You like your company just like you like your home, you want to improve it continuously, let it become even better, which is a driving force of innovation. (I6)*

*We are just like family members, and we as managers are just like their parents, we care about their job satisfaction and feelings, without considering their personal feeling and ensuring they are fully motivated, they cannot achieve what you want them to do. (I15)*

The organization tries to influence leadership style through the training and organizational innovative culture; managers are encouraged to be open-minded and willing to take the subordinates' suggestions and opinions. *"Our organization always criticizes 'ruled by one*

*voice', and encourages us not to make any decisions without listening to the employees' ideas and proposals. And the democratic management and open communication are encouraged. "* (I14)

#### **5.4.4 Discussion**

Based on findings about the control and innovative roles of MCS, three pairs of the tensions between different uses of MCS have been identified and confirmed by interviewed managers in the case organization. They create dynamic tensions in the organization. This section explores how organizations and managers balance these tensions to ensure individual and organizational goal achievement and encourage individual and organizational learning and innovation to drive strategic renewal.

Based on the data findings in this theme, it shows that the control systems are complementary with each other and work together when they are used for achieving the same purpose and use, and they become incompatible when the competing demands appear at the same time. It makes the relationships among the control systems clear, which are ambiguous in the literature, some researchers suggested that the relationship is complementary and others argued that the relationship is competing (Widener, 2007; Milgrom and Roberts, 1995). It also shows that the control systems cannot be substituted with each other, which is contrary with literature (Ferreira and Otley, 2006; Abernethy and Chua, 1996), because they target different functions and pursue different values.

**The tension between uses of MCS for controlling the strategy implementation and renewing strategy**

One of the main tensions between the different roles of MCS has been recognized by the interviewed managers, this tension is between the use of MCS for controlling strategy implementation and renewing strategy at the same time. During the process of implementing a pre-set strategy, the pre-designed plans and strategy have been challenged by the constant changing environment faced by the organization and developing organizational needs as well. All the interviewed managers agree this tension exists in the organization; however, it is manageable and controllable through adopting integrated accounting and PMS with flexible structure, routines and interactive process. The discussions can be triggered and the new strategic ideas can be formed to make strategic adjustments in order to fit new organizational capabilities and external environments (Sprinkle, Williamson and Upton, 2008; Ittner and Larcker, 2001; Seal, 2001; Simons, 1995).

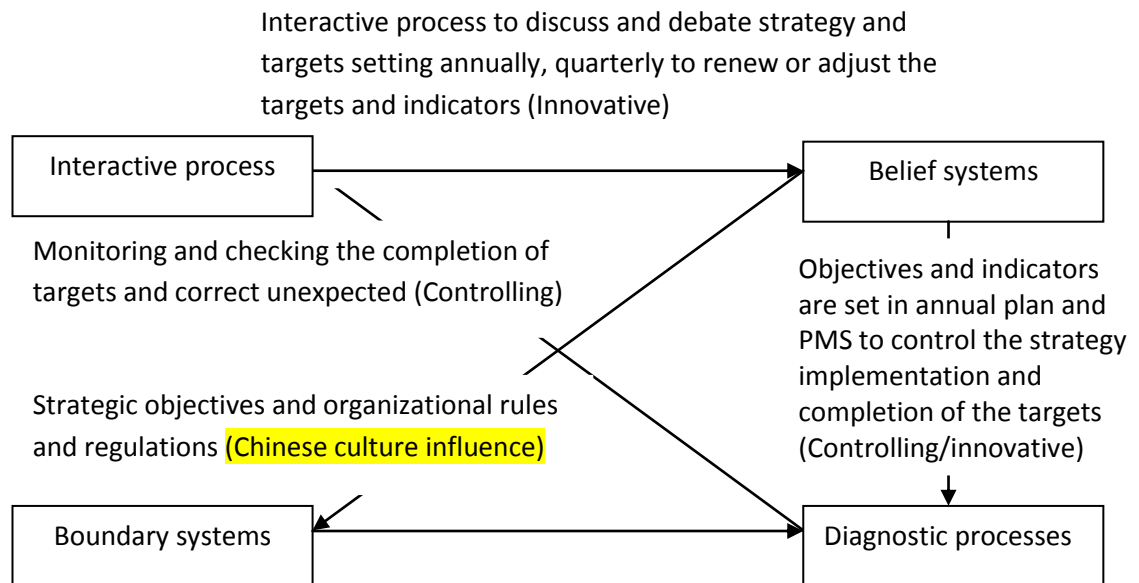
In the case organization, integrated accounting and PMS connect all the different businesses, different departments' plans, and goals to keep all goals consistent and the organization on the pre-set track. An extra flexible 20 points are given in BSC, it allows managers to take advantage of local resources and consider local market situation. A 10 % deviation rate is also given in the budget plan, managers perceived that the flexible structure gives them much freedom to experiment, and it also allows the new ideas and innovations to emerge to create the new opportunities and solutions in the way that best meets the market and achieves the desired goals. So the organization uses integrated accounting and PMS with flexible structure in order to balance control and flexibility and deliver appropriate controls. This finding is in line with literature, organizations should

maintain the balance between stability and flexibility through appropriate control; they should not abandon traditional MCS, but include them in the control package and use them flexibly and diagnostically to achieve the organization's goal efficiently and effectively (Herath, 2007; Simons, 1995).

As explored earlier, the control role of MCS is evidenced by adopting strict accounting control and PMS, which includes setting the tight budget plans, strict BSC indicators and targets for different businesses and each department, and also through monitoring and checking these plans and indicators frequently to correct unexpected activities. These strict accounting control systems, PMS and diagnostic communication constrain the operation and reinforce the role of MCS for controlling strategic implementation in the organization. The innovative role of MCS for renewing strategy is delivered by using interactive processes and communication, which provides managers with more chances to discuss and challenge the existing strategy, plans and targets in the case organization. Therefore, the balanced use MCS is achieved through using MCS diagnostically and interactively by managers. As Simons (1995) suggested the tension is created between levers. As shown in figure 5.10, diagnostic control systems and boundary systems, including accounting and PMS, strict regulations and rules as parts of organizational culture are used to create negative energy, while beliefs and interactive control systems including interactive process and flexible routines which are supported by the innovative culture are used to create positive energy, so the combination of diagnostic and interactive uses of MCS helps organizations manage this inherent tension, and also enables organizations to pursue pre-established goals and encourage strategic renewal (Bisbe and Otley, 2004; Simons, 1995).

**Figure 5.10: The Tension between Uses of MCS for Controlling the Strategy**

### Implementation and Renewing Strategy



Source: adapted from Simons (1995)

Managers also mentioned the interactive controls cannot be used often; the frequency of using must be according to the changing situation. They use interactive controls less in a stable environment and more in rapid changing circumstances which is demonstrated by Frow, Marginson and Ogden (2010), overused diagnostic controls can constrain learning and innovative activities, and overuse of interactive controls can also destabilize established operating procedures and goals. So it requires an appropriate use of MCS and the balanced use of MCS diagnostically and interactively by managers is the key to reconciling this tension. Overall, in the case organization, the tension between different uses of MCS for controlling the strategy implementation and renewing strategy is well balanced.

### **The tension between uses of MCS for controlling risk and exploring business**

The tension between uses of MCS for controlling risks and exploring new business is confirmed by the interviewed managers. The organization needs to seek out new opportunities constantly in order to extend the business and maintain profitable growth, and also needs to control and manage the risks the organization is exposed to. This operational level tension between risk control and business exploration is recognized in literature. The organization needs to enable employees to seek new opportunities while controlling the risks and this tension is generated when risk-taking behavior threatens existing goal achievement (Ahrens and Chapman, 2004, Chenhall and Morris, 1995; Simons, 1995).

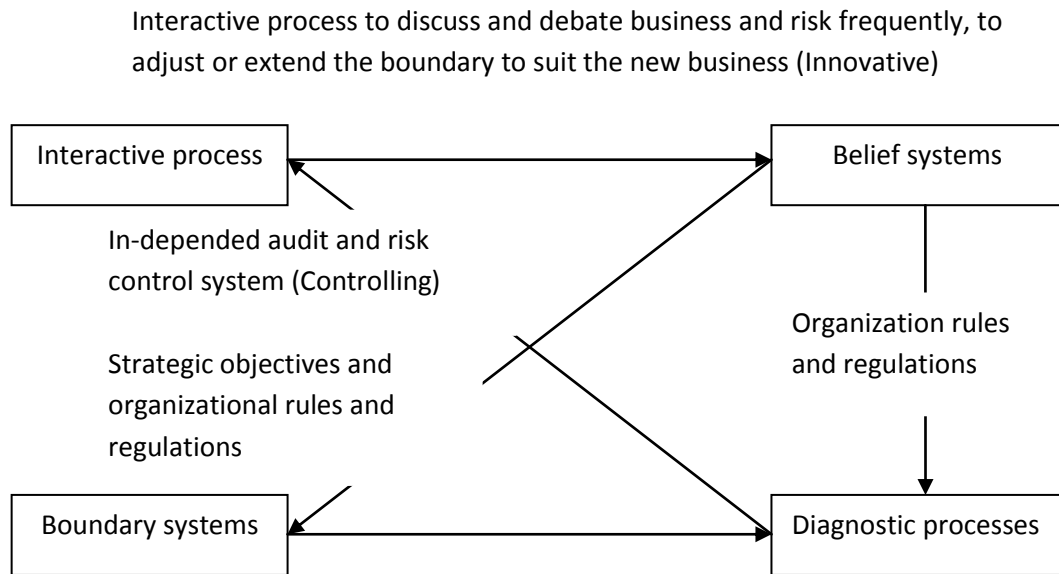
Independent audit and risk control systems are used to identify, measure and control the risks in organization; their main function is to control organizational activities and reduce the risks following the established rules and regulations. Goal setting is not only used to control organizational activities, but also is used to search for new business opportunities in order to complete the plans and targets. The organization used it to guide and encourage innovative ideas to accomplish organizational plans. A combination of independent audit and risk control systems with goal setting can help organizations balance the tension between different uses of MCS for controlling risks and exploring business. As has been discussed, risks can arise from business exploration activities, the organization uses belief systems to motivate managers to achieve desired goals and boundary systems help minimize the undesirable and negative behavior; belief and boundary systems together encourage managers to be innovative and remain within the boundary (Van der Stede, 2000; Chapman, 1997; Simons, 1995). So the findings indicate how the different uses of

control systems work together to allow managers to search for opportunities and motivate employees to achieve targets within the explicit limits and boundaries (Simons, 1995).

The organization establishes the limits that managers can operate within in order to protect organization from risks. Diagnostic use of boundary systems is used to track and monitor actual performance, detect potential risks and discuss the optimal solutions in order to resolve the problems. Interactive use of audit and risk control systems provides opportunities for managers and employees to propose new ideas and challenge the existing boundaries. So combining the diagnostic and interactive uses of audit and risk control systems can facilitate discussions to adjust the risk boundary necessarily for exploring and expanding new business. This finding is supported by the Simon's (1995) LOC framework, it explained that diagnostic and interactive uses of boundary systems can allow managers to challenge and extend the existing boundary to operate and promotes organizational learning and innovation.

Risk control and innovation are both crucial to organizational success, so the organization builds multiple cultural characteristics, on one hand, emphasizing risk control culture, and on the other hand, promoting innovation. The organization keeps reconstructing culture and changes its focus by emphasizing different values at different times in order to adapt to external environment and internal needs. The organizational culture is also supported by relative formal control systems to balance the tension. These new findings provide a better understanding of the role of organizational culture in balancing the organizational tensions.

**Figure 5.11: The Tension between Uses of MCS for Controlling Risk and Exploring Business**



Source: adapted from Simons (1995)

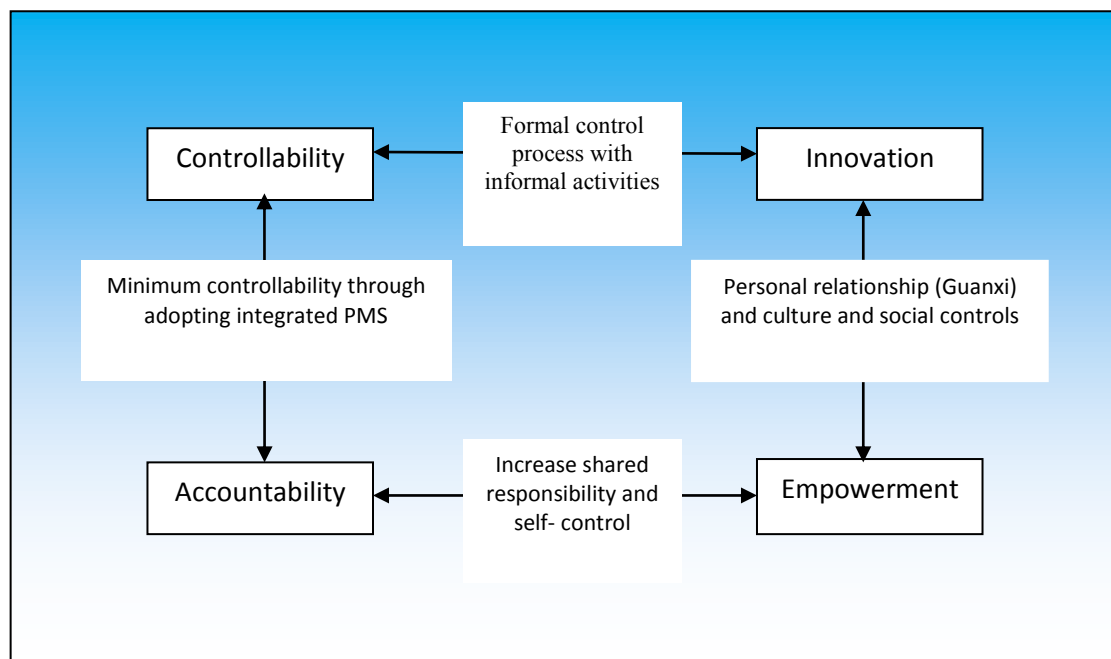
**The tension between uses of MCS for controlling employees' behaviour and enabling employees' behaviour**

The tension between different uses of MCS for controlling and enabling employees' behaviour is stressed by the interviewed managers, and it is seen as the fundamental conflict in the organization. In light of managers' understanding and experiences, managers need to control employees' behaviour to ensure that the individual goals are achieved; at the same time they have to enable and motivate employees to complete the plans, and, furthermore, encourage them to learn and innovate in order to promote organization innovation. This finding is supported by Marginson (2002) and Simons (1995); managers are facing the challenge of balancing the uses of MCS for controlling employees' behaviour for goal achievement and empowering and inspiring employees for learning and creativity. The organization is confronted with this puzzle of how to use MCS



to support creative behaviour and keep their behaviour controlled for goal achievement (Batac and Carassus, 2009; Norman, 2001). Findings also indicate that managers face this conflict all the time and they try to balance the tension and achieve effective and appropriate control through introducing fair evaluation; combining extrinsic and intrinsic motivation and balancing empowerment and controllability in order to improve self-control and autonomy (figure 5.12).

**Figure 5.12: The Tension between Uses of MCS for Controlling Employees' Behaviour and Enabling Employees' Behaviour**



Source: Adapted from Kennedy and Schleifer (2006)

Measuring employees' performance becomes very important to the organization. The managers all confirmed that the clear and fair evaluation is very important for motivating employees; it does not only help employees accomplish their objectives, it also keeps them motivated to work and learn. Employees' recognition plays a significant role in enabling employees; managers try to use effective recognition to solve the under-compensation problem, especially if the efforts they put have not been recognized by the formal rewards

and incentive system. The recognition is also used as a communication tool to reinforce and reward the expected outcome. These findings confirmed the importance of combining formal controls with social controls in balancing the tension on employees' behaviour (Adler and Chen, 2011; Collier, 2005).

According to the existing literature, traditional control is based on explicit contracts and extrinsic motivation which are mainly designed to control employees' behaviour and improve an organization's efficiency and stability. It hinders organizational learning and innovation which rely on intrinsic motivation, experimentation and flexibility (Amabile, 1998; Weick and Westley, 1996). Managers try to balance different forms of motivations in the case organization; they tend to balance extrinsic and intrinsic motivation by using formal incentive and reward systems with training and self-development. As Kloot (1997) suggested accounting systems should abandon the defensive routines and acknowledge intrinsic motivation and human beings in order to promote learning.

The organization combines multiple individual evaluations with team evaluation, managers perceived that this combined evaluation helps employees' commit to their individual goal achievement, and also gets individuals to participate in the team decision-making process which promotes coordination and creativity. The flexible team structure works across the different functions and departments and stimulates multiple-level information flow which enhances horizontal connection and coordination. This finding corroborates Frow, Marginson and Ogden (2010) and Batac and Carassus (1997) statement that flat structure facilitates and horizontal communication can facilitate learning and innovation. It also has been found out this flat structure moderates the traditional top-down hierarchical control structure and power and enhances interdependency and collaborative networks. This finding enriches the understanding on the culture control in MCS.

The organization tries to create a fair environment to enable employees to practice autonomy. The organization adopts a self-evaluation system as part of an overall evaluation of individuals; employees are encouraged to set their own goals and complete their objectives with less explicit requirements. This system gives employees empowerment which enables them to think, make their own decisions and take action which enhances employees' self-control and autonomy. Self-evaluation is re-evaluated by their superiors from different departments and different managerial levels. It demonstrates that a proper amount of empowerment will facilitate the innovation, then more empowerment is given and more control follows to keep the balance (Kennedy and Schleifer, 2006; Amabile, 1996).

In the case organization, the formal control systems are supplemented with informal and social controls to balance the tension between the uses of MCS for controlling and enabling employees' behaviour. Formal control systems may have an impact on controlling employees' behaviour, but less of an impact on enabling and empowering their behaviour, because employees are the focal point of this tension, self-motivation and satisfaction became more important elements. Family culture and enabling leadership styles have a huge influence in motivating and empowering employees' creative exploration and innovative behaviour. Managers' discretion and interpersonal relationships (Guanxi) play the most crucial role in enabling employees. Managers' discretion is crucial to encourage employees to perform beyond the basic requirements, and interpersonal relationships allow freedom and give special privileges allowing the employee to be innovative based on personal trust. These findings are consistent with existing literature. As Otley (1994) suggested, in order to adapt to the changing environment, organizations should encourage employees to be experimental and risk-taking, rather than only focusing on performance measurement and playing it safe. The traditional command and control approach must be

shifted to facilitation and empowerment mode (Frow, Marginson and Ogden, 2010), and managers should focus more on the non-financial style of MCS and social relations (Chenhall, 2005).

Simons' (1995) LOC is useful to explain the tension between different uses of MCS for controlling strategy and renewing strategy, and controlling risks and exploring new business; but it fails to explain the tension between the different uses of MCS for controlling and enabling employees' behaviour, because the LOC framework did not answer how the social controls influence employees' behaviour, and how they link MCS with employees' motivation to control behaviour and enable creativity in order to balance tension. It has been found out that Kennedy and Schleifer (2006)'s framework is applicable for explaining the tension between the use of MCS for controlling and enabling employees' behaviour.

#### **5.5 Theme 4: The Influencing Factors and Organization's Capabilities**

In theme one, two and three, the roles and uses of MCS package, as well as the three pairs of tensions have been explored and specially explained in detail in relation to the investigated organization. Based on managers' understanding and experience of how they balance the tensions between different roles and uses of MCS, this section is going to explore what are the key factors influencing the balance of tensions and the organization's ability to balance these tensions. Findings reveal that several important factors, externally and internally, can influence the balance of the identified tensions between the control and innovative roles of MCS, including 1) uncontrollable factors: namely external environment and internal demands; 2) controllable factors: namely the selections of control systems in MCS package; the way of using MCS; the design of the organizational structure;

communication channels and the information systems, finally organizational culture and leadership roles.

### **5.5.1 The Influencing Factors**

#### **5.5.1.1 External Environment**

External environment is identified as one of the dominant uncontrollable factors influencing the role of MCS in the organization. The manager in the SBes explained that in a stable environment, managers tend to focus on the control role of MCS to improve efficiency and productivity, *“If the market runs as we expected, then our main target is to complete the pre-set indicators and get the required job done on time.”* (I12). In a fast changing market, managers tend to focus on the innovative role of MCS to encourage learning and innovation: *“There are more and more banks in this area, the market becomes increasingly competitive, products are constantly updated, and so if you want to survive, you have to constantly innovate”* (I13). Some other managers also argued that in a turbulent financial market, organizations tend to have more control. The director described that *“When the credit crisis happened and whole market was in panic, our priority was just to control the risks, monitoring and measuring risks, nothing else.”* (I1). Government policy as one of the main elements determines external environment. When a government introduces a tight or loose monetary policy, and enhances the risk control or promote loans, the organization’s strategy and priorities have to change accordingly. The managers in the LC and IB departments demonstrated:

*From the external economic environment, the whole situation is changing, for instance, the government encourages lending or limit leading, our strategy will be different, that means*

*the whole economic environment decides our strategy. And our first time and second time transformation are affected by the economic environment. For now the bank supervision bureau enhances the risk control on commercial banks, which requires increasing the capital reserve, so we will emphasize risk control and focus on the saving business, and middle business. So the external environment change shifts our strategic focus and guide strategic adjustment, you have to change, if the organization can not fit the environment, it can not survive. (I6)*

*It is related to the whole situation, like in 2009 and 2010, the government try to promote the economics, so we will try to provide more loans, the indicators on the loans in the performance evaluation will be high, then you will try to encourage loans, however, now the focus id changed to control the risks, so the evaluation on risk aspects is relatively high. (I7)*

*The focus is changing; then we are adjusting the risk preference, which will affect your innovation thinking. Before we only focus on the large corporate business, and now the bank supervision bureau requires us to promote SME business, there is a substantial change, which affects the focus of risks and thinking on innovation. (I9)*

#### **5.5.1.2 Internal Demands**

The organizational internal demands also can change organizational development priorities. Organizational life circle and product life circles affect the balance of the control and innovative roles of MCS in the organization. Managers stated that the organization promotes innovation at the beginning of establishment in order to expand the organization's size and business, when the organization becomes mature it starts focus on stability, quality and efficiency. Thus, this demand has a certain impact on both the control and innovative roles of MCS. The director and managers in the LC, finance and planning departments illustrated:

*There are internal needs and demand, we want to grow and expand our business, now our business is limited by the size, we need to have more branches and deposits and loans, and*

*we need to have more customers, these internal needs also make us adjust the target and internal control focus. (I1)*

*At the beginning of first three years, we encourage innovation, want to expand the business and accelerate development and growth, from the third year to fifth year, we pursue steady development, risk control always come at first, so the focus is based on the organizational life cycle. (I2)*

*Our system becomes huge, there are more and more procedures and control, to some extent, they restrain effectiveness, but I found out it is necessary, it is also related to the company's size and life cycle, at the beginning management is simple, but when becomes big, you need more control and process. (I7)*

The director and the manager in the finance and planning department stressed that the internal needs have to compromise to external environment change, so the dominant role of MCS in the organization has to fit to external environment rather than the internal needs; therefore, the tensions between the roles of MCS have to be balanced according to the external environment impact, then internal needs.

*It has been 8 years already, period for third time transformation and rapid development, however it does not fit the whole economic situation, because the policy is tightened, so there is a contradiction, our focus is not consistent with economic situation, then we have to adjust it in time. (I1)*

*According to the tight environment, we have to adjust company's overall strategic focus on control, then accordingly you should adjust your assessment focus, your thinking needs to be adjusted as well. (I3)*

The uncontrollable factors, including external environment and internal demands, affect all the tensions from the strategic level to the operational then personnel level. All the tensions have to be balanced according to the external environment change and internal demands.

## 5.5.2 Internal Factors

### 5.5.2.1 Selection of MCS

Organizations and managers use various kinds of control systems, embracing formal and informal controls. Managers confirmed that a wider control framework including formal controls and informal controls allows the managers to balance the inherent rigidity of control with the more organic process of innovation. The selection of MCS in the case organization provides stable yet adaptive frameworks to increase the control capacity and balance the tensions between the control and innovative roles of MCS. Managers in the SBes explained this point from different views:

*At one side, we introduced more and more accounting and non-accounting assessment systems to check the implementation and goal-setting, these systems can show you results and feedbacks quickly which help you check the completion status and tell you where are problems. At other side, we constantly monitor the environment and market to detect the need for making changes through the feedbacks, personal communication and informal meetings. (I13)*

*As a manager, and you must help them develop their skills and foster their self-confidence, give them more chance to learn and attend trainings, they will be satisfied. You must have control in place, but people-orientated control, and you have to consider human nature, one side there are soft, spiritual control which targets on their thinking, and on other side, you must focus on the task completion and goals achievement, all of them make effective control. (I15)*

The organization put its effort into building integrated formal and accounting controls to increase the control capacity, and also endeavors to use culture control and encourage managers to use informal and social control to increase its flexibility. The ability of integrating different control systems affects the balance between competing roles of MCS.



For example, managers try to integrate different control systems, they link the budget to the BSC and reward systems and they combine the administration and formal control with social and culture control to deliver an appropriate control. Therefore, combining the formal procedure with informal controls supports the resolution of tensions between control and innovation. Thus, combining formal accounting controls with flexible and adaptive structure and routines also helps to balance the tensions; for instance, the less structured budgeting and BSC with a much more flexible process and routine encouraging learning and innovation which balances the focused freedom that innovation requires with flexible disciplines that moving from an idea into value creation demands.

#### **5.5.2.2 The Way of Using MCS**

The ability to balance the enabling and controlling use MCS (diagnostically and interactively) has been considered as the most important factor affecting the balance of different roles of MCS; it decides the interaction uses for controlling or enabling, between different levels, different departments, and between supervisors and subordinates. As discussed in theme two, diagnostic use of MCS can enhance the control role and function, and interactive use of MCS can challenge the existing strategy assumption and risk boundary. Therefore, the balanced use of MCS mainly depends on a manager's capability to use MCS, like the general manager mentioned: *"It all depends how you use the control systems, what you want to get out from them and when is appropriate time to use them"* (I13). Moreover, as explored in theme three, the balance of tensions between the uses of MCS for controlling and renewing strategy and controlling risks and exploring business are largely determined by the way managers use MCS.

### 5.5.2.3 Organizational Structure

The interviewed managers experienced the balanced and flexible structure in the case organization, which is neither hierarchical nor horizontal. For example, the organization tries to adjust the organization structure and focuses on business features rather than the administrative hierarchy structure. The organization focuses on a combination of the individual and team evaluations. Managers can form different kinds of teams according to the business needs. This flexible and balanced structure stimulates the social integration in the form of discussion and negotiation through daily dialogues and conferences, the communication allows managers to influence the decisions and actions of employees and help them achieve their targets.

Managers tend to use more team structure in a competitive market and dynamic environment, and use less team structure focusing on individual evaluation in a stable environment:

*When the market risk is really high, and we are not allowed to find more customers or provide more loans, then we will put more evaluation on individuals' tasks, and less on teamwork. (I14)*

*The hierarchy exists anywhere, but we have very harmonious relationship which is good for communication and exchange of information, because we know the interaction process is very important to get the job done. And we encourage the team works in this competitive market, because it connects thinking and makes easy for them to communicate and explore the new opportunities. (I15)*

#### 5.5.2.4 Communication Channel and Information Systems

In the case organization, an integrated information system links all the functions of the organization which encourages co-operation and facilitates communication among team members and different departments in the organization. This is described by the managers in SB:

*All the departments are connected through the information platform which links the different control systems, everything can be done on-line through our system, and the information has been reported every day. (I12)*

*The information platform brings all staffs in the departments together, it is easy to get and manage all the information and convenient to contact everyone. (I13)*

The integrated technology and information system platform really helps integrate the control process; it makes the organization react to the change and process the information quickly and communicate effectively. It also helps managers obtain comprehensive information which is not only the information about progress in achieving goals from every day, but also the information about the emerging threats and opportunities in the control process. Managers in the IT department, HR and IB departments acknowledged:

*All the data and the feedbacks from the implementation are used for analysis and comparison to provide evidences for decision-making. (I4)*

*The information system has validity problem, all kinds of regulation, indicators and information are available to employees, but if they do not want to look at and take initiative to accept them, no matter how good system you have, it does not have any effect. (I9)*

*Our information system is good, and we try to integrate separate and individual systems together, through this information channel, we can get the feedback faster, it also helps to keep the records and increase the credibility. (I10)*

*There are so many different kinds of meeting, regular management meeting, internal control meetings, professional meetings and various training, through all the meetings, you will let you know where is focus. (I12)*

This integrated information system provides the manager with adequate and accurate information about the organization, market and environment for decision-making; managers are able to respond as needed. It can also provide information in a timely manner for monitoring, correcting and adjusting purposes. Formal communication is used as a controlling function and informal communication is used as an innovating function. Informal meetings usually generate innovative ideas to deal with unexpected issues. After the issues have been identified, formal meetings will be organized to take action to solve and recognize problems. Therefore, the communication channel and information systems are related to the balance of the tensions.

#### **5.5.2.5 Organizational Culture**

Based on the findings in theme three, organizational culture is related to the balance of tensions, because organizational culture has been seen as the invisible tool to control or enable organization activities and members' behaviour. Organizational culture has dual characters, which promote both risk control and innovation culture; it encourages and rewards innovation, but not risk-taking behavior. It also creates an environment of caution and risk-avoidant attitude.

*The culture has two sides, one side is impact of positive reinforcement, and another side is impact of weakening, the organizational culture encourages the innovation, but from controlling risk point of view, the risk control always come first, no matter what kind of business you do, so the bottom line makes employees feel constrained. (I2)*

The organization tries to adjust the cultural value preference according to environmental and strategic priorities, and the organization makes its culture flexible and adaptive to changes in environment. The director explained:

*Culture is very important, and our organizational culture is always changing, it focuses on the different values for different period of time, we are changing due to customers' demand and environmental changing which is the embedded in our organizational culture, if we do not have the budget or the balanced scorecard, but the first thing we got to have in place is organizational culture which has been seen as the most crucial thing to develop. (I1)*

**Table 5.6: Organizational Culture Dimensions**

Time-scale	Culture dimensions	Detailed descriptions
1987 – 1993	Innovation-oriented culture	<ul style="list-style-type: none"> <li>• Hard working, sacrifice and innovation</li> <li>• Fair evaluation</li> <li>• Human-oriented management</li> </ul>
1993 – 1999	Scale culture	<ul style="list-style-type: none"> <li>• Development is priority</li> <li>• Focus on business expansion</li> <li>• Strong result control</li> </ul>
1999 – 2002	Risk Culture	<ul style="list-style-type: none"> <li>• Focus on risk management</li> <li>• Pursue quality</li> <li>• Strict regulation and measurement</li> </ul>
2002 – Until now	Business management-oriented culture	<ul style="list-style-type: none"> <li>• Facilitate change and organizational transformation</li> <li>• Focus on image and reputation development</li> <li>• Reduce the speed and focus on quality</li> <li>• Balance the profit, scale and quality</li> </ul>

The table 5.6 provides the evidence from internal documents which support the director's understanding of organizational culture, and it shows the nature of the adaptive organizational culture.

The organization also makes the effort to establish family cultural values, to make employees feel secure and connected in order to hold the organization together and

improve their job satisfaction.

*For assessment, we only talk about assessment, if this does not relate to assessment, I always try to encourage them, for team or department, there is a collective sense of belonging, and otherwise it cannot be a team. (I13)*

*You must make employees feel warm in the team, and managers just like parents, but branches are just like our teacher. (I14)*

The forms of organization also affect the organizational culture, managers indicated that state-owned organizations prefer hierarchy control and no fair evaluation, and the case organization culture is a family culture which is in the middle, either too strict or too loose:

*I am not suitable to the place where I have to consider the relationship with supervisors and subordinates, it is too tired of thinking the complex relationship when you work, but that is kind of problem for the large enterprises, in our organization, you have to think about the your work, and you also have to consider the relationships, we cannot be like western culture, because our business is in China, and we serve the Chinese customers, so our culture is a kind of in the middle. (I10)*

*I do not feel much hierarchy in the organization, everyone is approachable, and I always encourage them to raise the good ideas, even the immature ideas to share. We are a joint-stock bank, which is different with state-owned banks with hierarchy, and organization size is not large, we have less people for heavy work, so we are more cooperative and our focus is on the performance rather than the relationships. (I3)*

*The culture is combine the state-owned mechanism with full open market mechanism, if you completely like state-owned bank, there will be no difference between good or bad, doing more or less, everyone is the same. But for foreigner bank, everything is too clear. The culture I suggested the organization must be a school where can educate people and improve their abilities, a family where you feel warm and comfortable and we can help each other, an army which you can effectively implement plan and complete the tasks, so you have to combine everything together. (I14)*

*Our organization is good at this aspect, we do not have strong hierarchy, the culture is in the middle of stated-owned and private bank, and it combines the family culture and private ownership culture. (I15)*

#### **5.5.2.6 Leadership Roles**

Managers emphasized the importance of leadership and saw it as one part of organizational overall control: *Control is a leader's management style and leadership style (I7)*. Different leadership styles have different impacts on employees' behaviour, some managers emphasize authority and power, so they prefer to use MCS to guide behaviour to implement plans, other managers tend to use MCS to motivate people and encourage innovating behaviour. Therefore, leadership style can affect the tension between controlling and empowering employees' behaviour.

*The leadership styles are different, some leaders are relatively loose control, and some are more strict control. (I6)*

*About leadership style, the implementation and effectiveness of control systems depends on the leaders can use them and follow them strictly or not (I9)*

*In fact, I think this also associated with the leader's style, some leaders like to take risks, some leaders try to avoid risks, and we pursue stability, so we do not have any bad loans for nine years since we build up. (I10)*

*I think it all depends on different person, for me, I usually assess that they have innovative ability or not, and if I found out they do not have this ability, then I have to force them to do the things I planned, when they are able to put forward innovation, I will adjust my approach and give them some space, so I only consider it when they can propose something new. (I8)*

Some managers tend to maintain the organizational culture, while others try to create their own department culture. Organizational culture and leadership can reinforce each other,

organizational culture influence the leadership style, and leaders enable alterations in the organizational culture, so organizational culture is also shaped by leadership.

*I mentioned organizational culture, organizational culture is soft control, all the leader's character, style, attitude all have impact, but organizational culture play a dominant role. (I11)*

*In every branch, we have different persons in charge; the team leader, his personality, leadership style, and the way he deals with things are different which will have different effects, but the whole direction relies on the organizational culture. (I13)*

*The dimension of the culture, we believe that the shortest line is between two points, while in China, it is different which is not the straight line between two points, culture, thinking, values operates in the different ways, so it has its own optimal solution, so under this culture, you have to break the rules for seizing opportunities, even you know that is almost out of rule, but you have to walk on the edge. (I2)*

In addition to the leadership styles, the leaders' capability is also seen as one of important aspect which influences role of MCS, the leaders who have the ability to see and catch the opportunities will encourage employees to innovative, and the managers who do not have this ability will constrain employees' innovative behaviour.

*Personally I feel the innovation comes out from bottom, if the leader does not have ability to seek for opportunities or innovation, there will be no innovation, culture has impact, but the personal capacity, knowledge and experience have big impact. (I7)*

*The leadership style is very important, his spirit, style of doing things, capabilities can influence subordinate, and I suggest the organization should not only have one voice, everyone should have right to engage in decision making process.(I10)*

*If you are not leading them to do the things, you guild people to open up new business and new market, or you do not want to do these, they would not think about it. (I9)*



### 5.5.3 Organization's Capabilities of Balancing the Tensions

Based on the findings above, the controllable factors have been found in relation to the organizational capabilities of balancing the tensions, and a summary table has been presented below to show the case organization's capabilities of balancing the tensions between the control and innovative roles of MCS.

**Table 5.7: Organizational capabilities of balancing the tensions**

<b>Organizational capabilities of balancing the tensions</b>	
Selections of control systems in MCS package	<ul style="list-style-type: none"><li>• Wide control framework and comprehensive MCS package, including formal and social and culture controls</li></ul>
The way of using MCS	<ul style="list-style-type: none"><li>• Flexible an adaptive formal control systems</li><li>• Appropriate use diagnostic and interactive controls</li></ul>
Organizational structure	<ul style="list-style-type: none"><li>• Balanced control structure</li><li>• Flexible team structure</li></ul>
Communication channel and information system	<ul style="list-style-type: none"><li>• Integrated information system</li><li>• Multiple-flow communication channel</li></ul>
Organizational culture	<ul style="list-style-type: none"><li>• Multiple character culture (Control and innovative)</li><li>• Adaptive culture</li></ul>
Leadership roles	<ul style="list-style-type: none"><li>• Outstanding understanding and ability of using supportive social controls</li></ul>

As the table 5.7 shows, these organizational characters enhance the organization's abilities to balance the tensions, and an organization with these characters is better able to balance the tensions and carry out effective transformation in response to the external environment and internal demands' changes. In contrast, an organization without these characters in the MCS may limit their abilities to balance the tensions and fail to cope with the changing environment and meet organizational internal demands.

#### **5.5.4 Discussion**

The factors influencing the balance of tensions between different roles of MCS have been explored and revealed in this theme, and a detailed description has been made to explain how they affect the balance in theme three and four. The organization has to adjust the role of MCS according to uncontrolled factors external environment and internal demands.

Controllable factors that are associated with the organizational capabilities of balancing the tension are selection of the control systems in MCS package, coercive and enabling use of MCS, organization structure, communication channel and information systems, organizational culture, leadership styles and capability.

External environment and internal needs shape organizational strategy, and also shift focus of the role of MCS in organization. Under a stable environment and tight economic and monetary policy, the organization tends to emphasize tight control, on the contrast, under the competitive market and a loose economic environment, the organization emphasizes intensive innovation. Therefore, the economic environment has been seen as the most powerful factor which has tremendous impact on the role of MCS in organization. The environment changes shift organizational priorities, and the organization has to adapt its MCS to fit the changing external environment and keep the dynamic equilibrium (Simons, 2000; Omta, Bouter and Engelen, 1997)

The organizational internal demand and life-cycle also affects the balance of the tension. The organization has two transformations, the first transformation aims to expand the business size when the organization was just established, and the organization put more focus on innovation role of MCS and intended to expand its business and size. And for the second transformation, the organization puts more focus on the control role of MCS which

aimed to pursue the efficiency, quality and stability when organization becomes mature. So the organizational internal demand also influences the balance of tensions. For these uncontrollable factors, the organization has to adjust the role of MCS to fit the external environment change and internal demand as well. To a large extent, these factors determine all the balance of the tensions between different uses of MCS in different levels.

The organization adopts various control systems, including mechanistic control systems which mainly rely on accounting and performance measurement systems; audit and risk control systems; and organic control systems, including social and culture controls. Mechanistic control systems emphasize the efficiency and control role of MCS, while organic controls prioritize the flexibility and innovation role of MCS (Chenhall, 2005; Marginson, 2002). The organization does not abandon traditional mechanistic control systems, but modified them with flexible structure and interactive processes which maintains the balance between efficiency and flexibility (Herath, 2007; Ittner and Larket, 1997). Control and flexibility can be achieved by combining formal operational process and informal activities (Frow, Marginson and Ogden, 2005). The evidence suggested combinations of traditional budgetary controls and more interpersonal and flexible controls in conditions of environmental uncertainty. According to contingency theory in the literature, the distinction between dimensions within the external environment, such as uncertainty, hostility and complexity are important to MCS design. Mechanistic and formal MCS tend to provide incomplete information in uncertain conditions and require rapid reformulation to cope with the unfolding unpredictability, so it must be used with organic and informal controls. This finding is consistent with the Kennedy and Schleifer (2006) study, the selections of the MCS can increase the capacity of the control, flexibility of the control and integration of the control process.

Interviewed managers agreed the comprehensive use of MCS has a positive effect on improving the corporate strategy execution, risk control and improve the resource allocation efficiency, and facilitate the corporate strategy formulation, learning and innovation. Different uses of MCS focus on different purposes, diagnostic use of MCS is associated with monitoring and controlling the process and outcome, interactive use of MCS is associated with interaction, communication, learning and innovation (Henri, 2006; Simons, 1995). Therefore, moderate and exact use of diagnostic and interactive control processes depends on managers' capability of using MCS which contributes to the unique organization's capability of balancing the tensions in all managerial levels. The level of understanding of MCS usually determines the degree of use. In the case organization, all the interviewed managers confirmed that MCS are very vital to organizational success. The majority of interviewed managers have rich knowledge in MCS, however, their knowledge and understanding is narrowed to specific uses of MCS in their own department, and they have a lack of awareness of organizational overall control which limits the use of MCS in balancing the tension between roles of MCS. To a certain extent, the managers' understanding of MCS influences the use of MCS.

Structural arrangements influence the efficiency of work, the motivation of individuals, information flows and control systems (Chenhall, 2003). So organizational structure has been regarded as the crucial lever an organization can use to balance the different roles of MCS. Hierarchy, vertical and centralized structure supports strategy implementation. Horizontal, decentralized and flat structure facilitates connection and coordination (Johnson, et al. 2005; Coopey, 1995). And learning organization is associated with adopting flat structure (Kloot, 1997). The organization still keeps the traditional functional structure, but combined with more business features, managers can flexibly use different team structures to according to the organization needs. This structure facilitates

communication and cooperation, so it is either too stiff or too flexible, it blurs the line between responsibility and accountability, and also creates the extra space for innovation and learning. The forms of organization affect its structure as well; stated-owned organizations tend to adopt strict hierarchy and a rigid bureaucratic structure, while commercial organizations tend to adapt their structure and focus on business features.

Communication channels and information technology and systems play an important role in information accumulation, distribution, sharing, application and use. It supports organizational control functions and activities (Ferreira and Otley, 2005; Otley, 1999). The organization introduced an intergraded information system which links all the business functions and departments, it provides a convenient and effective communication channel and facilitates information transfer across all the business levels. And it does not only help managers monitor and control the strategy implementation, but it also helps trigger open discussion and fosters new strategic ideas. Effective organizations combined tight controls with more integrated, open and flexible information systems and informal communication and decision-making process (Chapman, 1998; Chenhall and Morris, 1995). According to contingency research, the appropriate organizational structure has to fit the levels of environment uncertainty, and information and technology systems (Perez-Freijs and Enkel, 2007). The integrated and open information systems supported flexible organizational structure and fit the external environment.

Organizational culture has a huge impact on MCS, and different countries possess different cultural values and characteristics; so organizational culture becomes crucial to MCS design (Schein, 1992). It shows different cultural dimensions with different formality of controls, structures and rewards systems, so there is a lack of consensus findings, little

work has been done in exploring its effect on the organization control (Henri, 2006). However, the findings from this research extend the understanding on impact of organization culture on organizational control. Chinese culture is hierarchy, high power and collectivism culture, and the organization develops multiple-level evaluation to moderate and minimize the negative effects from national culture, and also takes advantage of harmony and other positive elements to foster its unique family culture value to facilitate cooperation and enhance job satisfaction. It shows that organizational culture dominates and balances national culture in the case organization. Most of the interviewed managers agree that organizational culture plays a vital role for organizational control; cultural influence helps balance the tensions between the different roles of MCS. And Joint-stock commercial bank has its unique organizational culture feature, it influences the leadership, and leadership also plays a pivotal role in fostering such an environment.

## **5.6 Chapter Summary**

In summary, this chapter explored how organizations and managers use MCS in the context of Chinese organizations. The individual managers' experience and understanding of MCS are interpreted through multiple sources (interview data, observations and documents). Accordingly, the four structured themes emerged through analysis: Chinese managers' understanding of MCS and MCS as a package, the different roles and uses of MCS, balance of the tensions, and factors and organizational capabilities of influencing the tensions at different levels. Clearly, the findings have offered insights to help MCS scholars and Chinese practitioners to have better understanding of MCS practices in Chinese organizations in the context of the Chinese banking industry. First, the findings of this research provides sufficient evidences supporting that both control and innovative roles are used in Chinese commercial banks. Second, identifying the three levels of tensions

between these two roles make the banking institutions and individual managers fully aware the importance of balancing and reconciling them when implementing the MCS model in the Chinese institutions. Third, given the fact that MCS is still at its infant state in Chinese institutions, the influencing factors of balancing of the tensions identified in this study would encourage the organization to design their MCS package with extra care, not just for directors from the top level, but also the individual managers from the lower levels. Finally, the findings related to organizational capabilities of balancing the tensions will certainly help organization to develop its competitive advantages.

Overall the findings of this research confirmed the literature, this research illustrated how the organization achieves the different roles and uses of MCS; and it also makes the tension pattern explicit and gives insights of how the tensions transfer among all the levels. The factors influencing the balance of the different levels' tensions are also identified. So this research will be valuable for Chinese organizational MCS practice.

## Chapter Six

# Conclusions

### 6.1 Introduction

As stated in the Introduction chapter, the central argument of this thesis is that balance between the traditional and innovation roles in MCS has not been well researched, especially in the context of different cultural backgrounds. To answer the research question, *“How managers attempt to implement and balance the traditional control and innovative roles of MCS in a Chinese organization?”*, the existing theories and debates are critically reviewed, and the literature gap and practical issues were discovered in Chapter two. Further, the choice of social constructionism/ interpretivism, as epistemological and theoretical commitments, is explained in Chapter three. The philosophical stance the author determined for this study led to the qualitative and inductive research approach with an in-depth single case study; the details of the primary data, archive data, the observation together with the data analysis process are also explored in chapter three. In the previous chapter, the findings and discussion of the research are discussed explicitly with the linkage of the existing theories and frameworks reviewed in Chapter two: Literature Review.

This final chapter aims to bring together the research question, findings and conclusions to close the loop of the whole research process. Each of the following four research objectives are concluded and summarized in order to inspect whether these aims have been achieved in this research:



- 1 To explore managers' understanding of MCS in the context of Chinese bank organization.
- 2 To explore how the different roles of MCS are currently being implemented by the managers within the Chinese organizations.
- 3 To examine the interplay between the traditional and innovative roles of MCS, find out what the tensions between different roles of MCS are and how to balance them in a Chinese organization.
- 4 To explore the factors and organizational capability of balancing the tensions between control and innovative roles of MCS.
- 5 To contribute to management practice by developing a snapshot of current business practice with regard to MCS and their implementation within Chinese organizations that can inform MCS practitioners.

The contributions to theories, particular to the practices (key features of the DBA), are also presented in this chapter. Considering the nature of the limitations of this qualitative research, the quality of this study is evaluated by using relevant criteria (e.g. trustworthiness, credibility, transferability; dependability and conformability). After presenting the limitations of this research and suggestions for further research, this chapter ends up with the reflections of the researchers' personal and professional development.

## **6.2 Summary of Findings**

Developed from the previous chapters, the conclusions are summarized in this section. In relation to the research questions and research objectives, the conclusions will be presented by following the four sub-research questions: the Chinese managers' understanding of MCS; the control and innovative roles of MCS in the Chinese organization; the tensions

between the control and innovative roles of MCS; and finally the influencing factors and organizational capabilities of balancing of these tensions in the context of Chinese organization. Following this, the insights and contributions to both theories and practices will be provided.

### 6.2.1 The Understanding of Concept of MCS

**Objective one:**

*To explore managers' understanding of MCS in the context of Chinese bank organization.*

The concept of MCS has been well studied in the context of Western cultures. However, there are limited studies which explore managers' understanding in the context of Chinese culture. Based on the investigated Chinese Bank case, the interviewed managers claimed that, in their bank, they use a wider control frameworks, including administrative control systems, accounting control systems, PMS, information system, structure, leadership and culture controls (see table 4.2).

From the Chinese managers' accounts, MCS is regarded as a comprehensive system, working as a package rather than emphasising one aspect but ignoring other elements. Different forms of control systems are used for carrying out different roles and meeting different organizational purposes. Interestingly, it was found that the managers from different departments tend to understand the MCS from their own working experiences in their own functional areas. The findings did show that the Chinese managers from different functional areas (e.g. the marketing manager comparing the financial manager) emphasised the importance of the control in their own function areas as part of the MCS. But overall, these Chinese managers understand that the different uses of MCS in their organization

and how each individual control system, working as a package, contributes to the organizational overall control functions. As showed in 4.2 (different roles and uses of MCS in the case organization), all interviewed managers understood that MCS should be used as a package in organizational controls. Importantly, the findings indicated that Chinese managers emphasize the culture roles in the MCS within their bank. They regard the culture as a part of overall control, not only the organizational culture but also Chinese cultural value. Both of them were considered as an important element in the MCS.

### 6.2.2 The Control and Innovative Roles of MCS

**Objective two:**

*To explore how the different roles of MCS are currently being implemented by the managers within the Chinese organisations.*

In Chapter two, existing literature shows that the traditional control role and innovative role can be used in the MCS for different purposes. In relation to the research question of how Chinese managers interpret the control role and innovative role in the MCS, the findings indicated the both control and innovation have been applied in the Chinese organization when applying the MCS. The key function areas of control and innovation are summarised in the table presented below.

**Table 6.1: Different Roles and Uses of MCS in Case Organization**

Roles of MCS	Uses of MCS	Specific
Control role of MCS	MCS for controlling strategy implementation	<ul style="list-style-type: none"> <li>• Planning, accounting control systems and PMS</li> <li>• Diagnostic use of accounting control</li> <li>• Reward and punitive measures</li> </ul>
	MCS for controlling risks	<ul style="list-style-type: none"> <li>• In-depended audit system + Risk control system</li> <li>• Diagnostic use of audit and risk control systems</li> <li>• Risk culture control</li> </ul>
	MCS for controlling employees' behaviour	<ul style="list-style-type: none"> <li>• Organization rules and regulations</li> <li>• Audit representative</li> <li>• Heavy punishment measures</li> <li>• Multiple-level performance evaluation</li> <li>• Coercive leadership style</li> <li>• Culture control</li> </ul>
Innovative role of MCS	MCS for renewing strategy	<ul style="list-style-type: none"> <li>• Flexible and adaptive routine</li> <li>• Interactive process</li> <li>• Multi-flow communication channels</li> <li>• Intergrated Information System</li> </ul>
	MCS for exploring new business	<ul style="list-style-type: none"> <li>• Goal setting</li> <li>• Interactive process</li> <li>• Flat structure</li> <li>• Innovative culture</li> </ul>
	MCS for enabling employees' behaviour	<ul style="list-style-type: none"> <li>• Reward and incentive</li> <li>• Innovation requirement as one of assessment</li> <li>• Training and career development</li> <li>• Innovative Culture</li> <li>• Enabling leadership and leaders' capability</li> <li>• Social control</li> </ul>

Table 6.1 shows that the investigated bank has used control and innovative roles comprehensively to support their MCS. The importance and necessity of control role of MCS were confirmed by all the managers. They suggested that the control roles in their bank are mainly used in three areas: controlling strategy implementation, risks control and employee behaviour controls. Each area includes different functions (see table 6.1). The control role is enhanced from top managerial levels to the lower managerial levels. In contrast, in this investigated bank, it is clear that the control roles are crucial in many aspects in helping the organization achieve its goals. Nevertheless, innovative role seems also important for this commercial bank. Managers do not abandon these traditional formal controls, but use them with flexible and adaptive routines. The interactive process of using formal controls systems provides these Chinese managers more opportunities and

alternative plans. And informal, social and cultural controls are widely used to facilitate the learning and innovation. By investigating this case organization, it is found that innovative roles of MCS are also used effectively in their bank. Overall, innovative roles of MCS are used to renew strategy, explore new businesses and enable employees' behaviour. The bank strengthens the innovative role from the lower managerial level to the top managerial level.

In correspondent to the reviewed literature, overall, the findings of this research have confirmed that both traditional role and innovative have been adopted by this Chinese commercial bank. This implies that control and innovation works side by side practically as recognized by some MCS researchers (Alvesson and Kärreman, 2004). Moreover, main functions of traditional role discussed in the literature review chapter, such as control of standardised operation processes and routines (Merchant, 1985; Anthony, 1965); formulating and implementing strategies and goals (Otley, 1999), are also emerged in this study. Interestingly, the use of control role for controlling employees' behaviour has been clearly identified. Regarding the innovative role, the four functions are discussed in the literature review: managing strategic changes (Davila, 2005), encouraging learning (Ferreira and Otley, 2009), enabling employees' behaviour (Wouters and Wilderom, 2008). In this research, two new functions are discovered: renewing existing strategies and exploring new business opportunities.

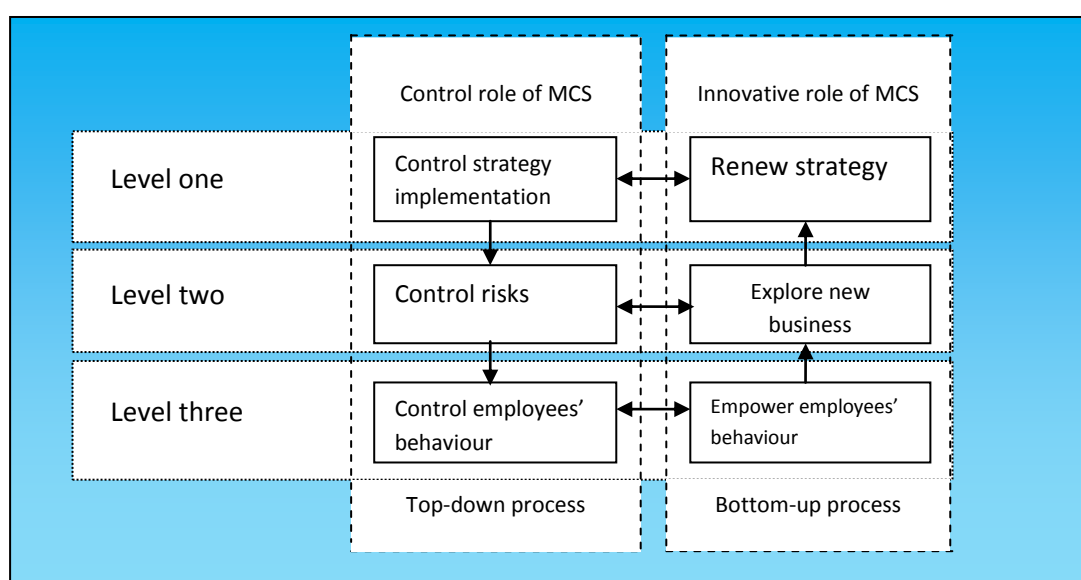
### **6.2.3 The Tensions between Control and Innovative Roles of MCS**

**Objective three:**

*To examine the interplay between the traditional and innovative roles of MCS, find out what the tensions between different roles of MCS are and how to balance them in a Chinese organisation.*

Using the single-case study and multiple sources, three levels of tensions between the traditional and innovative roles of MCS have emerged for this study (presented in figure 6.1). These three tensions include: 1) the tensions between MCS for controlling strategy implementation vs. MCS for renewing strategy; 2) MCS for controlling risks vs. MCS for exploring new business; 3) MCS for controlling employees' behaviour vs. MCS for enabling employees' behaviour. These findings are significant to contribute to the development of the MCS theory in the context of Chinese culture.

**Figure 6.1: The Levels of Tensions between Control and Innovative Roles of MCS**



As presented in figure 6.1, within these three levels, the MCS involves all the organizational members in the two multiple-dimension control processes: top-down process and bottom-up process. In top-down process, according to the organization's desired goals, the risk boundaries are set to control employees' behaviour which enhances the control role of MCS. In contrast, using bottom-up process, managers enable employees' behaviour (encourage innovation) to seek for the new business opportunities in order to extend new business opportunities and drive strategic renewal. So the tensions

between different roles of MCS have been transferred among the different managerial levels in order to either enhance the organizational control or drive the strategic renewal.

To balance the first-level tension between the different uses of MCS for controlling and renewing strategy, the case organization adopted the strategy by integrating accounting and PMS with flexible and adaptive routines. They kept all levels' goals consistent to ensure the organizational intended strategy can be achieved and also allow the new ideas and innovation to emerge to create the new opportunities and solutions to drive strategic renewal. And this level tension is also reconciled by balanced use of integrated accounting and PMS diagnostically and interactively. Using accounting control systems and PMS diagnostically helps the organization constrain the operation and reinforce the strategy implementation, while using them interactively provides managers with more chances to discuss and challenge the existing strategy and facilitate strategic change. As a result, appropriate use of accounting control systems and PMS can help organization balance the tension (Shows in figure 6.1).

In the middle level, the Chinese managers in the studied case tend to balance the second-level tension, between different uses of MCS for controlling risks and exploring new businesses, by setting the reasonable and reachable goals to encourage the search for new business opportunities. At the same time, managers used the risk control system to monitor, control and reduce the risks through established regulations and standard procedures. This tension is also moderated by combining diagnostic use and interactive use of risk control systems. Combining diagnostic and interactive use of risk control systems do not only help detect, track, monitor and control the potential risks and risky behaviour, but also provide opportunities to challenge the existing risk boundary and generate new ideas.

Appropriate use of risk control systems can control the risks and adjust the risk boundary necessarily for expanding the business and promote organizational learning and innovation.

Finally, the third-level tension between the different uses of MCS for controlling and enabling employees' behaviour is reconciled by creating fair performance evaluation. The interviewed Chinese managers all confirmed the importance of creating fair environment in the organization. It is confirmed that fair evaluation can motivate employees to accomplish their tasks and also keep them motivated to work and learn. And this level tension is also balanced by combining extrinsic and intrinsic motivation. Reward and incentive are used to improve extrinsic motivation which is only used to control employees' behaviour. The notion of this was evident from the findings that training and career development provide opportunities to encourage employees to learn and develop themselves. Employees' self-evaluation enhances their accountability awareness, self-control and autonomy, and social controls enable employees to be innovative and experimental, which balances accountability with empowerment.

When explaining the relationships between control and innovative roles of MCS, the managers interviewed also highlighted the influences of the environment factor. The findings reveal that control role and innovative roles complement each other in the stable environment, and they are competing with each other when the external or internal environment changes. This outcome emerged as an interesting finding which advance MCS scholars and practitioners' understanding of management control of Chinese firms.

Importantly, from the managers' experience, it is evident that culture is regarded as an important element in balancing the three different levels of tensions. In practice, both organizational culture and Chinese national culture were taken into consideration. As a



commercial bank, this organization has its own unique dual-character organizational culture. Different from the state-owned bank, it does not only emphasize *risk control* but also advocates the great value of the innovation. At the same time, the organization adjusts its culture emphasis on different values in order to help organization adapt to external environment and internal needs. To balance the tensions effectively, the organization needs to reduce the negative effects of culture and take advantage of its positive side. For example, the organization can adopt multi-level evaluation to minimize the negative effect of hierarchy power. In addition, Chinese family culture can be used to promote group-based activities. Clearly, the findings show that the strong organizational culture dominates the national culture in the case organization. The flexible and adaptive organizational culture as guidance shifts the focus of the role of MCS in order to balance the dynamic tensions between the control and innovative roles of MCS. The discovery of the culture element (e.g. the Chinese family culture) and its impact on the tension-balance are novel findings which have not been investigated in the Chinese commercial bank.

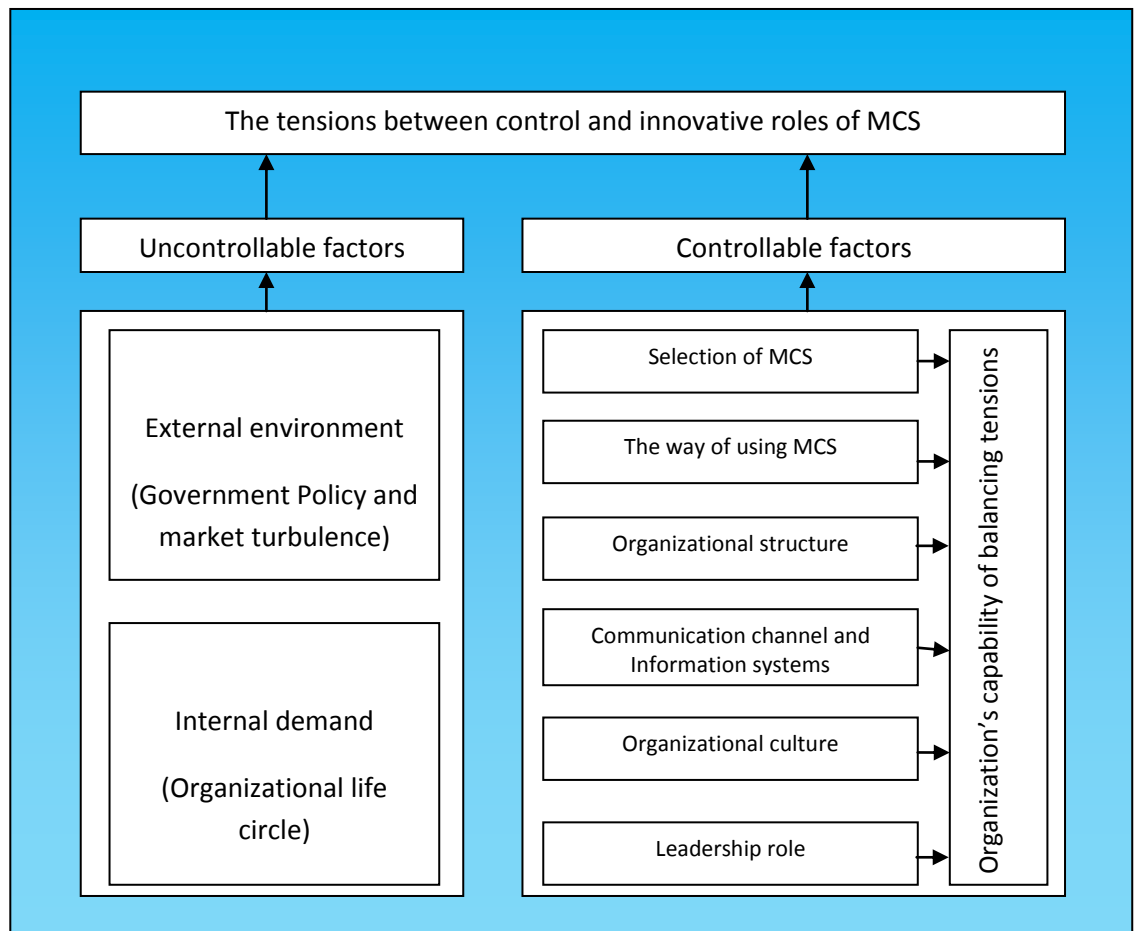
#### 6.2.4 The Factors and Organizational Capabilities

**Objective four:**

*To explore the factors and organisational capability of balancing the tensions between control and innovative roles of MCS.*

Having been pointed out in the prior chapters, the influencing factors, in relation to the balance of the different levels of tensions, have not been well addressed in the existing studies. To fill this research gap, this study discovered different factors. The details are presented in Figure 6.2 below.

**Figure 6.2 Influencing Factors and Organizational Capability of Balancing Tensions**



As indicated in the above figure, the factors which may influence the balance of the tensions between the control and innovation roles of MCS can be divided into two categories: uncontrollable and controllable factors. For the uncontrollable factors, both external environment (Government policy and market turbulence) and internal demands (Organizational life circle) are found relevant. Uncontrollable factors determine the equilibrium point between the control and innovative roles of MCS, so they determine the balance of the all levels' tensions between different uses of MCS in different levels.

Regarding the controllable factors, seven areas emerged within the investigated case. These include 1) the selection of MCS; 2) the way of using MCS; 3) organizational structure; 4) communication channel and information systems; 5) the organizational

culture; 6) leadership roles. Based on managers' understanding and experience, these seven factors played important roles in balancing the tensions. The findings of this study revealed that uncontrollable factors including external environment and internal demands change the equilibrium point between the control and innovative roles of MCS. And controllable factors determine the focus of the role of MCS and internal factors affect the organization's capabilities to adapt to the changes caused by external environment and internal needs. Adaptive organizational culture as guidance always indicates the emphasis of the role of MCS in the first place. In addition to the organizational structure, communication channels are accordingly shifted to support the adjusted culture and strategy. So they all affect organization's capability of balancing the tensions. Moreover, the integrated information system facilitates multi-flow communication and enhances corrosive and enabling use of MCS, which increases the organization's capability of balancing tensions. Table 4.7 show the case organization's capabilities of balancing the tensions.

### **6.3 Contribution to Practice**

The main purpose of this research is to make contributions to practice as stated in the research objectives in the introduction. For the practical contributions, it can be claimed that this research has provided a comprehensive view of how managers attempt to balance the traditional control and innovative roles of MCS in a Chinese organization from a practical perspective.

Often, banks and managers spend billions of dollars designing their effective MCS. One the one hand, they admit the importance of control role (e.g. financial control). On the other hand, aggressive competitions force them to introduce new strategy (e.g. being

creative and innovative). In this context, this study has offered several practical contributions to banks managers.

First, this research provides empirical evidence of the implementation of MCS in a Chinese commercial bank. Being different from the prior studies, this research has examined the MCS as a whole package rather than a few selected areas (e.g. accounting only). It advances managers' comprehensive understanding of the control and innovative roles of MCS from the practical perspective. Thus, it helps organizations choose appropriate control systems to design their own effective MCS package betaking a holistic view to study both control and innovative roles of MCS. Consequently,

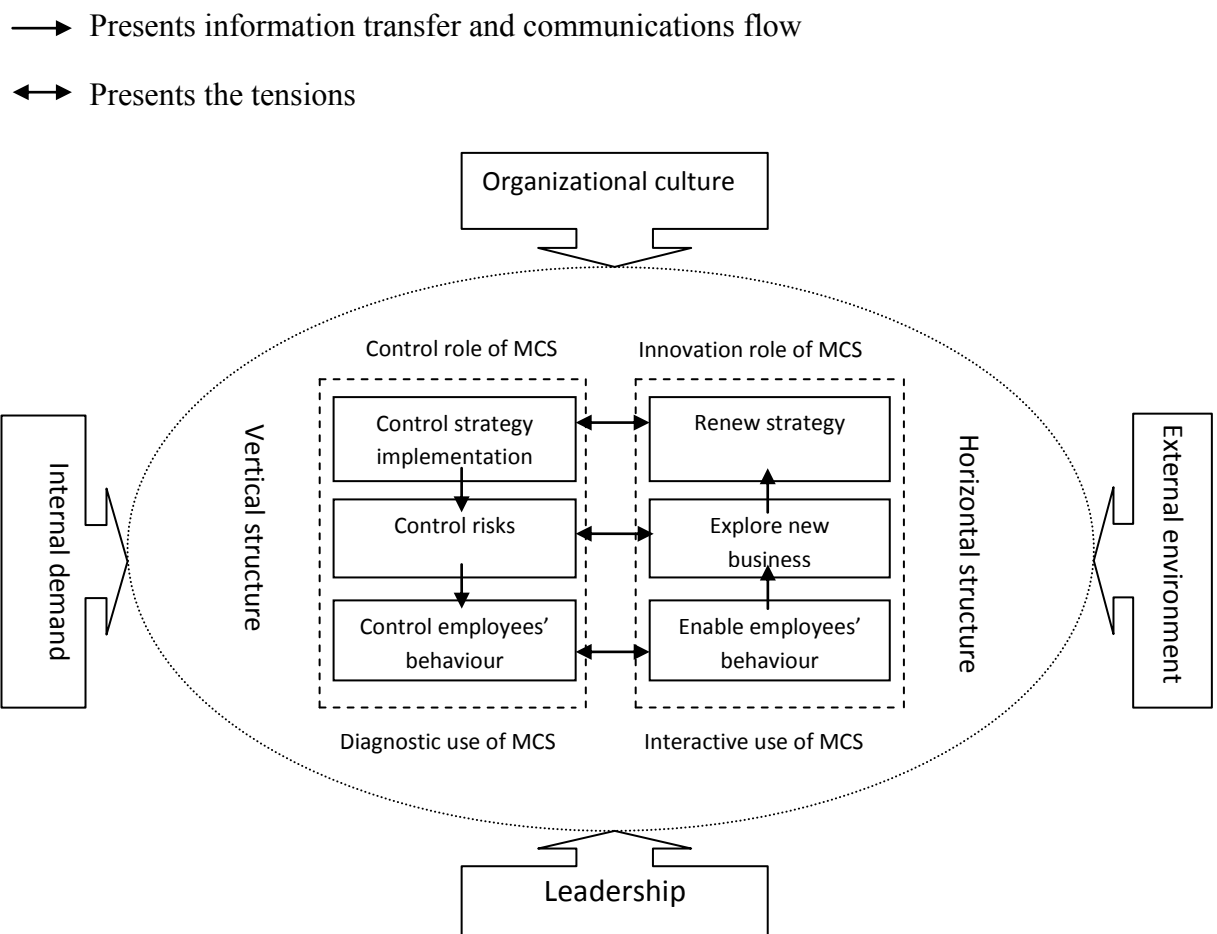
Second, this research discovered what and where the tensions exist and explored how these tensions between the control and innovative roles of MCS can be balanced in practice. Especially, by identifying the two top-down and bottom-up multi-dimension processes, managers from different departments may be able to utilize the two roles (control and innovation) more effectively and adjust these two roles accordingly in different function areas and cooperate with each other (e.g. CEOs, HR managers, financial managers etc.). By doing so, it certainly improves the organization's performance and guides the managers to reconcile the tensions effectively.

Another most important and valuable finding is the discovery of the influencing factors which affect the balance of the tensions between the control and innovative roles of MCS. These factors, including external environment, internal demands, organizational culture and leadership, provides insights to banks and individual managers to realize how these areas are importantly relevant to their MCS design. In addition, these findings offer managers a guidance to draw support and resources from its environment (internal and

external) when formulating and implementing its MCS system. An efficient MCS, which puts adequate balance between the control and innovation roles, is crucial for organizations to enhance its performance and sustain its competitive advantages.

Finally, to add more credibility to the practical contribution, a practical framework (figure 6.3) is developed for managers on the basis of the findings of this research.

**Figure 6.3: Pattern of Tensions between Control and Innovative Roles of MCS**



This framework is a combination of MCS package, roles of MCS, tensions between different roles of MCS and factors influencing tensions. The main purpose of developing this framework is to provide managers a comprehensive understanding of the overall pattern of tensions and practical solutions to reconcile the tensions. This framework, on the

operational level, provides the managers with a whole picture when considering the strategic development and implementation by using MCS in their organizations. This practical based framework was showed to some of the interviewed managers who consider it useful and would consider using it to help them use MCS more effectively and understand and balance the tensions effectively in the future. Their positive feedback inevitably offered valuable evidence to support the practical contributions of this research. Overall, from a practical point of view, this study has made an important contribution to the Chinese organizations that either adapted MCS or are going to use MCS in the future.

#### **6.4 Contribution to Knowledge**

According to the findings, this research does not only attempt to make contributions to practice, it also provides some unique contributions to the existing theories. It has filled the gaps identified in the literature review chapter. To answer the research question developed at the beginning of this research, this study made an in-depth investigation of the tensions between the control and innovative roles of MCS by applying and extending western-based theories into a Chinese organization. It makes several contributions to the existing literature.

The first theoretical contribution is that this study has extended understanding of the management control system in the Asian cultural context. The findings of this study have illustrated that the national culture, as well as the organizations culture (influenced by the national culture) play crucial roles on balancing the tensions between the control and innovative roles of MCS. This study provides details of how the culture element affects the implementation of MCS in non-state controlled Chinese institution. It provides new insights about the control and innovative roles of MCS.

Secondly, unlike the previous studies which are either only focus the individual functional area (e.g. accounting, HR) or single-level tensions, this research examined the conflict roles of control and innovation by looking at the all different aspects (practically, the organization treats the MCS as a whole package rather than isolated departments). It clarified the confusion of the relationship between the control and innovative roles of MCS in the literature, and clearly explained the dynamic interplay between the control and innovative roles of MCS. Moreover, this research presents the overall pattern of the tensions between the control and innovative roles of MCS and reveals the explicit links among the tensions in different levels.

The third contribution of this research is that this research made the first attempt to identify and summarize all the relevant factors influencing tensions between the control and innovative roles of MCS. Those factors have not been fully explored in previous studies, especially in the context of Asian organizations. The identification of two groups of uncontrollable and controllable factors and their impact on the balance of tensions can help researchers to understand where the efforts can be made in relation to the studies of organizational capabilities of balancing the multi-level control and innovation tensions.

## **6.5 Reflexivity of the Research**

The importance of self-reflection for qualitative research has been well recognized. Reflexivity is often used as one part of evaluation of the qualitative research. Reflexivity means to explore the influence of role of the researcher plays and make it explicit in the study, such as a researcher's social and historical biography, lived experiences and paradigm (Johnson and Duberley, 2000; Easter-Smith and Malina, 1999). Through the reflexivity, the researcher aims to make the *analysis of analysis* (Finlay, 2002; Johnson and

Duberley, 2000) and *interpretation of the interpretation* (Alvesson and Skoldberg, 2000). To take a reflexive research approach, the researcher will reflect on the values and bias he/she experienced or brought into his/her research. A reflexive approach mainly involves two main areas: epistemic reflexivity and methodological reflectivity (Guba and Lincoln, 2008; Cresswell, 2007). Reflexivity helps researchers reflect on how other participants and the researcher's personal beliefs, values and experience affect the outcomes of the research. It also can be a useful approach to improve the trustworthiness of research (May, 2002; Patton, 2002). Unavoidably, sometimes, the researcher brings his own experience and preconceptions to both the selection of research paradigm and analytical techniques, so how to make sure researcher's paradigm to view the world is consistent with required philosophy stances of this research. Whether the methodology and methods choices fit the nature of the research is crucial for qualitative research. Two reflexive approaches, epistemic reflexivity and methodological reflexivity, are to be discussed in detail next.

### **6.5.1 Epistemic Reflexivity**

Epistemic reflexivity is to reflect researcher's own epistemological stance. Johnson and Duberley (2003) explained epistemic reflexivity as a process that the researcher tries to reflect own social location and its effects on the outcome of the research. Furthermore, Johnson and Duberley (2000) explicated epistemic reflexivity is about revealing how the researcher involves in the research, and how the researcher's personal values and beliefs influence the research. So the importance of epistemic reflexivity has been recognized for qualitative research, and it has been acknowledged as the most useful way to understand qualitative approach and improve quality of the qualitative research (Manson, 2002). Patton (2002) also stressed qualitative research should include the researcher's personal and professional information which may affect research approach and data collection and



analysis process. So in this section I try to identify my own position in the research and how I, as a researcher, affect the process and outcome of the research, and also try to explain the relationship between researcher and research in order to make the researcher's involvement in research transparent and increase the trustworthiness of the research.

Based on my own philosophical stance, I believe realities are socially constructed, so the knowledge is constructed by peoples' experience. From a research point of view, organizational control practice is under the special social and culture context; thus, it only can be explained by interpreting managers' understanding and experience. Accordingly social constructionism paradigm was adopted for this search based on the nature of social research matches my own philosophy stance of seeing the reality. From this perspective, my own personal assumptions facilitate the way of doing this research.

Furthermore, my own background brings me some advantages, and also some challenges when reflecting. The Chinese culture is deeply embedded in my thinking through 26 years of living, studying and working in China. However, 6 years spent living and studying in UK also influences my way of thinking. The Western culture influences and the cultural distance makes me understand Chinese culture more deeply after comparing it with the Westerners' believes and values. I understand that the same phenomenon may have different interpretations under the different cultural background. This background helps me avoid interpreting the data from a narrow mind. And I also found out as a Chinese individual, it makes it easier to talk and share the understanding with managers in Chinese organizations which provides the advantage of understanding their thinking and behaviours.

To some extent, previous short-time working experience (as a manager's assistant in the business department of a trading company) helps me understand the research phenomenon.

During the data collection and analysis process, I tried to hear managers' voices and understand their thinking, and I also tried to make sure my interpretation did not influence participants' interpretation, so my interpretation of their interpretation can be carried out realistically (ensuring the managers' voice is heard). Reflecting on the research process, I found it is actually relatively easier (than I expected) for me to separate myself from the research process (not completely as my Chinese identity and embedded Chinese culture) because I did not have any experience of working in the bank. Control practice in bank is completely new to me, so I did not have confusion when I interpreted the interview data, and non-relative working experience also reduces the chances of interpreting the phenomenon by imposing my subjective understanding.

It reveals that as the involvement of researcher is a part of research, the researcher's impact on the research is inevitable. During the research, I tried to minimise my own cultural values and beliefs influence on the research; however, it still may have some impact unconsciously. Overall as a researcher, by considering all the possible ways of involving in the research, epistemic reflexivity helps researcher rethink the position in the research and makes the involvement and influence explicit in order to provide audiences an honest and good quality of qualitative research.

### **6.5.2 Methodological Reflexivity**

Methodological reflexivity is to critique the methodology and methods adopted in the research (Johnson and Duberley, 2002). Methodological reflexivity is often used to explore how the researcher is involved in the particular method and the data interpretation process (Johnson and Duberley, 2003; Alvesson and Skoldberg, 2000). It concerns why the research was conducted in that way, could I make it different? The justification of choice

of methodology and methods for this research has been explained in chapter three, and this section is going to re-examine the design of adopted research methodology and methods after conducting the research and also reflect on the researcher and research participants' impact on the research in order to understand the relationship between research, researcher and participants. Reflexive analysis at this level is to reveal the assumptions, values and biases of this research.

The previous research has been done by following a quantitative approach with the focus on a single aspect. Researchers largely ignore the interrelationships between different roles within control systems; consequently, many researchers suggested the alternative approach to investigate the relationships between control systems and roles of MCS. Therefore, this research follows the qualitative approach which attempted to explore the phenomenon based on managers' understanding and experience under a Chinese cultural background. The interviewed managers were general and deputy managers who exercise the control systems in the organization; they provided deep insights and rich information of using MCS which helped this researcher dig deeper to explore the phenomenon. My supervisors have made me consider why the research did not involve the low level employees, the reason for this is because MCS are the tools used by managers; they are the "player" who decides how the employees ("actors") act and behaviour. Thus, this research only focuses on senior and middle level managers.

The researcher as outsider of the participant organization gives a better position to see things clearly and investigate the phenomenon without being influenced by the organization's culture. However, it also became a disadvantage to get access to the data, some of the managers refused to take type-recorded interviews at the beginning because of the sensitivity of the job. Some of them finally agreed after I explained the purposes of the

research several times, but they still asked me not to record some parts of the conversation, so out of respect for them, I only took notes instead. I also paid great attention to the participant's attitudes and reactions during the interviews, by doing this, I attempted to acquire the true meanings of our conversation. At the end of each interview, I also took participants' opinions and asked them how they felt and how I can improve the quality of my next interviews. After the interview, I still kept in touch with them and tried to send the transcriptions back to interviewed managers and discuss the outcomes with them, so they are fully involved in the research process.

The semi-structured interviews and template analysis method are well suited to the nature of this exploratory study, because they provide a better and more flexible way of collecting, analyzing data and generating findings. For the data collection stage, I followed a reflexive process of doing interviews, I found out it enables the researcher to justify and modify the interview questions in order to get the right information from the next interview. I reviewed and transcribed each interview right after it was been done; if I found out that I did not get information I needed or the information is not enough or rich, I first reflected on the way I asked the question during the interview and recalled whether the interview questions were appropriate, then I would adjust the way or the questions I asked for next interview. For the data analysis stage, I reflected on the techniques I used to analyse the data. I started analysing the interviews backwards from the last one to the first one, because I found that the information was richer from the later interviews than the earlier ones, so it provides better initial template to analyse all the data.

Based on my reflections and experience of using epistemic reflexivity and methodology reflexivity, I found that researcher, myself, and the participants were involved in this research effectively. The reflexivity, therefore, provides a transparent way of reviewing

and reflecting research process through whole research journey. It not only helped me to have a better understanding of the quality of my data collection and analysis, but also helped me to evaluate this research by linking the whole process together from the design of the methodology to complete the data analysis.

## **6.6 Limitations and Suggestions for Further Research**

### **6.6.1 Limitations**

This study attempts to investigate a phenomenon which involves complex and dynamic processes in nature. In particular, it distinguishes from the prior studies by examining the MCS operations as a whole package rather than from single perspective (in reality, the MCS practices do not happen in an isolated way). While the results of this study have made great contribution to MCS research both theoretically and practically, the researcher obviously recognise that it must be considered in light of the limitations. Social research usually is related to a number of limitations because social research tends to have biases developed from a researcher's own background and experience, as well as from interviewees' understanding and experience (Taylor-Powell and Renner, 2003). During the whole research process, the author put much possible consideration in making every effort to create a high quality research. However by evaluating and reflecting on the research process, there are still a number of unavoidable limitations within this research.

First, having mentioned above, this research involves a very complicated phenomenon. It attempts to examine the implementation of the MCS as a whole package. Considering the nature of the research design and lack of implementing Western MCS in the Chinese banking industry, this study only carried out an in-depth case study. Certainly,

generalizability became a weakness for this study. For example, the case organization was selected in Chinese banking sector. This bank is a joint-stock commercial bank which has less imposed controls and regulations from the Chinese government. This has significant different impact on banks' management comparing to Chinese state-owned banks in China. The implications of the findings of this study need to be adjusted considerably, as well as when applying to other business sectors.

Second, this study involved both English and Chinese during the processes of data collection and data analysis. Owing to the high costs of translation of two different languages and time constraints for all the interviews, the researcher conducted the transcriptions and translations on his own. Some translation bias might exist in presenting the findings and discussions. Moreover, the participants' personal characteristics (some of them are good speakers, others are controversial) may impact their expression of their opinions during the interview process. For example, for the quiet interviewees, the researcher had to make extra efforts to encourage them to explore their opinions and sharing their experiences. In this circumstance, the researcher's own interview skills may be a bias which affects the findings of this study slightly (especially the first few interviews).

A third limitation is that this research is situated in the specific Chinese cultural background. The embedded Chinese culture value may have a certain impact on interviewees' opinions. For example, although the researcher had emphasized the confidentiality to each participant before the interview, it is suspicious that not every interviewee gave a 'free-talking' during the interview. In addition, MCS is a relative new management concept to Chinese managers. Their limited knowledge of the Western

management concepts and lack of Western culture background may also cause potential limitations.

Although there are some potential limitations for this study, the researcher claims that the above limitations have been considered carefully from the design to completion of this study. All kinds of efforts have been made to minimize the bias by the researcher. Despite of these limitations, this research, contributively, provides the unique value in term of identifying the relationships between the different roles of MCS. It presents a clear picture of how the traditional control role and cotemporary innovative roles conflict each other and what can be done to reconcile and balance these two important roles within management control system.

#### **6.6.2 Suggestions for Further Research**

Limitations discussed in the prior section provide a platform that enables the researcher to consider the potential research areas in the future. Based on all the unavoidable limitations of this research, the following research opportunities remain considerable.

First, this research was conducted in the context of a joint-stock commercial bank in China. Other types of banks in China, such as stated-owned banks, can be investigated. This is due to the special political system in China. The comparison of the findings and results between these two different types of banks in China will help both researchers and practitioners to deeply understand the MCS, especially in the context of Chinese culture. Moreover, the extension of this study would be to explore how government imposed regulations influence Chinese organizations' practices of balancing the traditional control role and dynamic innovative role. In the meantime, other Chinese organizations in different

sectors, such as technology-intensive and knowledge-intensive organizations which highly emphasize on innovation, can be selected to find out how the traditional control and innovative roles are balanced.

Further to the consideration of the culture element and its impact upon the MCS practices, another avenue for future research is to consider how culture from other Asian countries influences the implementations of MCS, especially in their banking industry. In this study, the embedded Chinese cultural value has certain impact on the balance of the traditional control and innovative role of MCS. Can this be confirmed in other Asian context? For example, it is conceptually and methodologically possible to examine the Indian banks due to the similar size of the country but different political system. By conducting the similar research and comparing results of two most important players in the Asian world (but different political system), a more certain answers can be developed in answering the question whether the Western-culture based MCS theory and frameworks can be widely implement in Asian cultures.

In terms of other future directions for research, as the findings of this research is conducted on the basis of a single case study. The general limitations of the signal case study encourage other MCS researchers to carry out multiple case studies and conduct cross-case analysis when designing their research. By doing this, the phenomenon investigated in this study can be examined in-depth to develop a better understanding of the implementation of MCS in different situations. In addition, this study is a highly qualitative based research. To overcome its limitations of generalizability, a quantitative approached can be considered, especially the set of influencing factors discovered in this research can be tested in the large survey sample size.



Despite these limitations, the research provides a deep understanding and valuable insights in relation to different roles and uses of MCS in a Chinese organization. By conducting this research, the researcher made initial effort to explore the tensions between control and innovative roles of MCS, how the tensions can be balanced, and what are the influencing factors and organization's capabilities of balancing these tensions. By way of illustration, this research sheds a light on the complex issue underlying the unique Chinese business culture. A better understanding of a firm's responses to design and implement the management control system, via adequate balance between the traditional control and dynamic innovative role, has been provided in this study. Although, the limitations exist, nevertheless, it is believed that this research has offered significant value for both Chinese banks and individual managers at different levels (correspondence with the three level tensions). Contributively, the process details of implementing MCS in the Chinese commercial bank presented in this study will inspire Chinese state-owned banks to put more efforts on innovation in the future.

## **6.7 Personal Development Reflection**

Doloriart and Sambrook (2009) described that the main focus of the research is on the understanding of the researched background and culture, and another focus is on the researcher's personal reflection. So in addition to research itself, it is also important to reveal the researcher's personal reflection during the research journey, especially for a professional doctoral student. Overall, this research journey is fascinating and frustrating to me; it is full of ups and downs, challenges and difficulties. However, the interest and enthusiasm on the research topic kept motivating me all the time and led me to the end. Looking back my whole DBA journey, my personal reflection on knowledge development,

research skills, career development and meaning to my life will be discussed in the following sections.

### **6.7.1 Developing Professional Knowledge in MCS**

Research is often expressing the researcher's individual interests and values (Johnson and Duberley, 2003). The choice of this DBA research topic motivated me to conduct a comprehensive literature review to help me to understand the phenomenon investigated. As a result, many relevant literature and the practical issues related to MCS have been critically reviewed. By doing this, it helps me gain rich knowledge and deep understanding in MCS area. Moreover, the outcomes of this research enables me not just have theoretical understanding of MCS, in the context of Western management system, but also expanded my knowledge to the different cultural context (in this case Chinese culture). After conducting this research, especially after interviewing the managers, practically, I gained more insights of using MCS in practice from managers' point of view. Completing this DBA research did enhance my own understanding of Chinese way of balancing the control and innovative role and developed my own professional knowledge of MCS.

### **6.7.2 Improving Research Skills**

From developing the research topic to the choice of the research philosophical stance and from the methodology choice of the data collection to the data analysis, I have developed and improved my research skills considerably. First, my epistemology reflected my belief of national culture's impact upon this research. Secondly, as a result of all the research training, various research activities and exercises (some of them through DBA taught block programmes), my abilities of using the qualitative analytical tools have been enhanced and improved. For example, data collection exercises have enhanced my interview and

communication skills which are required as necessary skills of a manager. Also, using template analysis and computer software Nvivo for data analysis has helped me to strengthen the role as the researcher and these research experiences are really useful to foster my capabilities for my future career. Moreover, working on the research workshops with colleagues and DBA students has opened my mind and expanded my cultural understanding of communications. Finally, writing reports and my thesis also helped me improve my writing skill and foster a critical thinking approach of how to make a plan and solve problems.

### **6.7.3 Linking DBA Research to Career Development**

This research contributes to professional development by gaining professional knowledge and practical management skills. It balances between professional and academic. As a professional doctoral thesis, it does not only focus on practical issues, but professional knowledge contribution; so it helps me gain better awareness and understanding of MCS and enhances my ability to solve practical problems. Furthermore, it provides a foundation to satisfy my personal desire to be a consultant in management accounting area or a professional manager in the bank in the future.

### **6.7.4 Meaning to My Life**

After overcoming extreme difficulties in the last three years, finally, it fulfilled my DBA dream. By my calculations, the past 1,095 days added significant meaning to my life. Completing this research was a big challenge for me. Unexpectedly, during the first two years, I was injured twice (Back injury and Achilles tendon injury). As a result, my DBA studies were suspended twice consequently. During that time, the operation pain made me

feel terrible. I had been very stressed out. Moreover, some other uncontrollable events had happened during my DBA studies. My supervision team was changed at the crucial time of DBA studies (MPP). My father was seriously ill when I was writing my thesis. He had three operations in China. As the only child in our family, I could not be there with him. All those things really made me feel frustrated. Nevertheless, I am glad that I did not give up because of all these difficulties and challenges. Indeed, all the experiences I had in this DBA journey has become a part of fortune for me which makes me stronger and more determined. This DBA research journey was filled of hardship and difficulties. However, it meant a lot to me. This research journey does not only develop my professional knowledge and research skills, more importantly, it enhances my ability to deal with unexpected events and handle all the difficulties in my life. Life is full of tensions, balancing the life and research is a big challenge for everybody. No matter if you like it or not, you have to deal with them. But once you transform all tensions to another higher level, your life will be more meaningful and valuable. That's exactly what I learned from this DBA journey.

To complete this DBA research, I have gone through a long and hard journey and spent a great deal of time and energy finding the way to understand the complexity of the world. After this long journey, I have found my way of making sense of the world and understanding things around me in a new way. By way of a conclusion: Is this journey end? I would say 'No!' I accept that social existence is complicated and multi realities exist. I now know that there are no perfect answers for many social phenomenon and issues. These issues will not go away because there are always different interpretations and different ways of producing meanings. As a new researcher, to have a better understanding of the world, I will keep studying people around me and acknowledging the complexity of the society.

## **List of Appendices**

### **Appendix A: Initial Interview Guide**

1. Could you tell me what are your position and roles in the company now? Has your roles been changed before?
2. What are your key responsibilities?
3. How do you understand the concept of MCS?
4. Can you talk about what are the strategic perspectives and organizational goals of the company?
5. What kinds of control systems are you using? What are the uses of them, and how do you implement them?
6. Are you using them separately or together with other control systems, for example?
7. As a manager, how to monitor and measure your performance?
8. What rewards or penalties will employees gain by achieving or failing to achieve performance targets?
9. Are you aware of any conflicting goals and how do you deal with them?
10. What enable and encourage you to be innovative /creative/ experimental/learn/adapt?
11. What prevent you from being innovative/creative/experimental/learn/adapt? In which aspects?
12. How do the culture values influence the control and innovation in the organization, in which aspect?
13. What kind of information are you collecting, and what are the uses of them?
14. How do you communicate with your superiors and your subordinates?
15. How does the information transfer within different departments?
16. Is there anything you would like to add?

## **Appendix B: Initial Interview Guide (Chinese version)**

1. 你可以告诉我你在公司的职位和所承担的职能？是否有过变动？
2. 你能谈一下公司现行的战略发展方向和公司的主要目标是什么？它们是否变动？  
如果是的话，有多频繁？你又是为什么要更改它们？
3. 你所承担的主要责任是什么？你的实现的主要目标是什么？
4. 你是怎么样理解管理控制系统组合（包）的概念的？
5. 公司都采用了那些管理控制系统？它们的用途是什么？你是怎么设计它们的？
6. 这些管理控制系统是单独运做的，还是和其它的管理控制系统一起用的？在那一方面，能举例说明吗？
7. 你的业绩是怎么样被监督和考核的？
8. 对于完成业绩指标的你给予什么奖励，而对于没有完成业绩指标的又给予什么样的处分？
9. 你是否意识到任何冲突的目标，你是怎么处理？
10. 什么鼓励了你进行尝试/学习/有创造力/有创新精神的？主要表现在哪一方面：
11. 什么阻止了你进行尝试/学习/有创造力/有创新精神的？主要表现在哪一方面：
12. 你认为文化价值怎么样影响了公司的控制与创新，具体表现在哪一方面？
13. 在公司里，什么样的数据被收集？它们的主要用途是什么？
14. 你是怎么样，通过什么途径和你的上下级进行沟通和交流的？
15. 信息是怎么在各个部门传输的？
16. 你还有什么要补充的吗？

## **Appendix C: Final Interview Guide**

1. Could you tell me what are your position and roles in the organization now? How long have you been in this position? Has any change before?
2. Can you talk about what are the organizational and your department goals?
3. What kinds of control systems are you using to implement the goals? How do you use them to ensure the goal achievement?
4. How will you deal with the uncompleted targets? Will you adjust them or reinforce them?
5. What is your understanding of concept of MCS? And what are the main purposes of using them?
6. What kinds of control systems are you using? How do you design and implement them?
7. Are you using them separately or together with other control systems, for example?
8. How do you monitor and measure employees' performance?
9. How do you encourage them to complete the targets?
10. Do you feel or experience these conflicts when you use of MCS, and how do you balance them:
11. Do you think what kind of factors affecting the balance of these tensions? And what determines the balance of the tensions?
12. Are these tensions are changing or remaining the same? What cause them change?  
(external and internal factors)
13. How do you feel the organizational culture and relationship?
14. What are the main characters of organizational culture? Does it encourage you or control you?
15. To what extent and in which way do you think the culture value influence the control and innovation in the organization?
16. Have you considered the culture values when you design and use other control systems, and in which aspect?
17. How do you think about the leadership impact on control and innovation, please give some examples.
18. What kind of information are you collecting, and what are the uses of them?
19. How do you communicate with your superiors and your subsidiaries?
20. How does the information transfer within different departments? And what are the main purposes of them?
21. How the information systems affect the control process?
22. Is there anything you would like to add?

## Appendix D: Final Interview Guide (Chinese Version)

1. 你可以告诉我你在公司的职位和所承担的职能？在这个职位了多久，是否有过变动？
2. 你能谈一下公司和你所在部门的主要要完成的目标是什么？
3. 你都是用什么来控制 and 监督这些目标的执行和完成情况？你又是怎样确保目标的实现？
4. 如果没有完成所设定的目标，你是怎样处理的？进行目标和任务的调整，还是加强执行力度？
5. 你是怎样理解管理控制系统组合（包）的概念的？它们的用途是什么
6. 在你的部分都采用了那些管理控制系统？你是怎么设计和运用它们的？
7. 你感觉这些管理控制系统是单独运做的，还是互相作用的，能举例说明吗？
8. 员工的业绩是怎样被监督和考核的？
9. 你是怎样鼓励员工完成目标的
10. 在运用管理控制系统的时候，你有感受到这些矛盾的存在吗，你又是怎样平衡它们的？
11. 你是怎样解决这些矛盾的？那些因素影响了你平衡这些矛盾？要平衡到什么程度是由什么决定的？
12. 这种矛盾是否是变化的，推动起变化的主要原因又是什么？（内部还是外部的环境）
13. 你感觉公司的结构和人际关系特点是什么？
14. 公司的文化特点是什么，你感觉它是鼓励还是控制着你？
15. 你认为在什么程度，以什么样的方式文化价值影响了公司的控制与创新？（侧重于控制还是创新）
16. 在设计和使用管理控制系统的时候，你有没有考虑到文化价值？具体表现在哪一方面？
17. 你感觉领导风格对控制和创新是否有作用，请举例说明？
18. 在你的部门里，什么样的数据被收集？它们的主要用途是什么？
19. 你是怎样，通过什么途径和你的上下级进行沟通和交流的？这种沟通和交流对你是一种控制，还是鼓励？
20. 信息是怎么在各个部门传输的？他们的用途是什么？
21. 您感觉信息技术对控制的流程有什么影响？
22. 你还有什么要补充的吗？



## Appendix E: Organizational Consent Form

### RESEARCH ORGANIZATION INFORMED CONSENT FORM



Newcastle Business School  
University of Northumbria

Completion of this form is required whenever research is being undertaken by NBS staff or students within any organization. This applies to research that is carried out on the premises, or is about an organization, or members of that organization or its customers, as specifically targeted as subjects of research.

The researcher must supply an explanation to inform the organization of the purpose of the study, who is carrying out the study, and who will eventually have access to the results. In particular issues of anonymity and avenues of dissemination and publications of the findings should be brought to the organizations' attention.

Researcher's Name: Tong Zheng

Student ID No. (if applicable): 05911310

Researcher's Statement:

I am a DBA (Doctor of Business Administration) student in Newcastle Business School of Northumbria University, and I am doing my research on Management Control Systems. My study purpose is going to explore how the organization balances the tension between the different roles of MCS for controlling and innovating. The research will be conducted in a Chinese bank. The directors, senior and middle managers are going to be involved in the data collection process, and Organization and individual participation is entirely voluntary and can withdraw at any time.

The semi-structured interviews and participant observations are going to be employed, each of participants will be distributed with participant Informed Consent form, and all the forms must be signed and returned to researcher before the interviews are conducted. All the interviews will be recorded with a digital voice recorder, transcribed and translated. The interviews will take place at the place of participants' choice. The initial interviews with participants are approximately 1 hour to 1 and half hours, the transcripts will be email back to participants to be reviewed. The observations will take place during the management meetings in the meeting office, at least 2 observations are expecting to participate. And the time for data collection is from 7<sup>th</sup> March 2011 to 18<sup>th</sup> of March.

All information in this study including organizations' names and participants will be anonymised. All the data will be stored safely, and the anonymised transcripts are needed to give supervisors. The data are going to be used and published in variety forms and variety of audiences.

If you have queries related to this research, please contact me through email: [tong.zheng@northumbria.ac.uk](mailto:tong.zheng@northumbria.ac.uk), and phone: 0044-07872008968.

Any organization manager or representative who is empowered to give consent may do so here:

Name: \_\_\_\_\_

Position/Title: \_\_\_\_\_

Organization Name: \_\_\_\_\_

Location: \_\_\_\_\_

If the organization is NBS please completed the following:

Start/End Date of Research / Consultancy project:	Start: End:
Programme  Year  Sample to be used: seminar group, entire year etc.	
Has Programme Director/Leader, Module Tutor being consulted, informed.	

Anonymity must be offered to the organization if it does not wish to be identified in the research report. Confidentiality is more complex and cannot extend to the markers of student work or the reviewers of staff work, but can apply to the published outcomes. If confidentiality is required, what form applies?

- ☐ No confidentiality required
- ☐ Masking of organization name in research report
- ☐ No publication of the research results without specific organizational consent
- ☐ Other by agreement as specified by addendum

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

This form can be signed via email if the accompanying email is attached with the signer's personal email address included. The form cannot be completed by phone, rather should be handled via post.

## Appendix F: Organizational Consent Form (Chinese version)



### 诺森比亚大学 参与公司通知许诺书 纽卡斯尔商学院

当研究要开始进行前，这个表格将由纽卡斯尔商学院学生或者职员填写和完成。适用于被研究的对象，包括公司，公司的员工，或者消费者。

研究者必须对研究的目的给以解释，由谁来进行研究，谁可以获得研究的结果。让公司了解对于匿名，分发的渠道，和研究成果的出版等特殊问题，

研究者:\_\_\_\_\_

学生号码 (如果适用):\_\_\_\_\_

研究者陈述:

我是在诺森比亚大学纽卡斯尔商学院读工商管理的博士，我的研究是关于“管理控制系统”。我研究的目的是探索公司是怎样平衡“管理控制系统”控制与创新角色之间的矛盾。数据将在公司内部收集，总经理，高层和中层领导将受到采访，公司和个人是自愿参加研究的，可以在任何时间退出。

半结构式采访和观察将用来收集收据，每一个参与者将得到参与者通知许诺书，每一份都需要在研究开始前签名和返换给研究者。所有的采访将被录音，转换成文字本并翻译。采访的地点将由被采访者选择。采访大约持续 1 个到 1 个半小时，所有的采访文字本将给会被采访者进行检查。观察将在会议室进行，期望至少参加 2 个以上的会议观察。收集数据的时候从 2011 年 3 月 7 日到 2011 年 3 月 18 日。

所有获得的信息，包括公司的名称和参与者的名称都将匿名处理。所有的数据将被安全保存，匿名的采访文本将给予导师。所有的数据将以不同的方式出版。

如果你有其它涉及到研究的问题，请发邮件给: [tong.zheng@northumbria.ac.uk](mailto:tong.zheng@northumbria.ac.uk), 打电话给: 0044-07872008968.

公司的授权经理和代表人

名字:\_\_\_\_\_

职位/称呼:\_\_\_\_\_

公司名称: \_\_\_\_\_

地点: \_\_\_\_\_

如果公司不想被暴露名称，匿名是可行的。机密性是很复杂的，并不涉及到评判和审阅人员，但是使用于出版，如果保密性是被要求的，那么哪一项是适用的？

- ☐ 没有机密性要求
- ☐ 在研究报告中隐藏公司名字
- ☐ 研究报告不被发表和出版

签名: \_\_\_\_\_ 日期: \_\_\_\_\_

如果签名人的个人邮件地址被附加，那么这个表格可以通过邮件进行签名。这个表格不使用电话，也可以进行邮递。

## Appendix G: Participants' Consent Form



### Newcastle Business School Informed Consent Form for research participants

Title of Study:	<b>"Balancing the Tensions between Control and Innovation Roles of Management Control Systems: A Case Study of Chinese Organization"</b>
Person(s) conducting the research:	Tong Zheng
Programme of study:	Doctor of Business Administration
Address of the researcher for correspondence:	49D Shields Road West Newcastle upon Tyne Ne6 1JN
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Description of the broad nature of the research:	This research explores the phenomenon of how the Chinese organization balances the different roles of MCS for controlling and innovation and reconciles the tensions between them; the case study is adopted with semi-structured interviews with managers.
Description of the involvement expected of participants including the broad nature of questions to be answered or events to be observed or activities to be undertaken, and the expected time commitment:	The participants are the director, senior and middle managers in the different departments in a bank of China. The semi-structure interviews and observation of management meeting are used for collecting the data. The interview questions are related to MCS, Culture and Information systems. The expected time for each interview is between one hour and one and half hours.

Information obtained in this study, including this consent form, will be kept strictly confidential (i.e. will not be passed to others) and anonymous (i.e. individuals and organizations will not be identified *unless this is expressly excluded in the details given above*).

Data obtained through this research may be reproduced and published in a variety of forms and for a variety of audiences related to the broad nature of the research detailed above. It will not be used for purposes other than those outlined above without your permission.

Participation is entirely voluntary and participants may withdraw at any time.

**By signing this consent form, you are indicating that you fully understand the above information and agree to participate in this study on the basis of the above information.**

**Participant's signature:**

**Date**

**Student's signature:**

**Date:**

## Appendix H: Participants' Consent Form (Chinese version)



纽卡斯尔商学院

研究参与者知情同意书

研究课题	平衡“管理控制系统”控制与创新角色之间的矛盾：一个中国企业的案例分析
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描述所做研究的本质	本研究探索公司怎样平衡“管理控制系统”控制和创新的角色，和协调他们之间的矛盾，具体的说是怎么样运用管理控制系统有效地控制员工行为，进行战略的执行和完成所设目标，同时又能激励员工学习和创新，从而促使公司的创新和战略的革新。
研究者期望的参与描述，包括需要回答的问题，参与的事件或者参加的活动，预定执行的时间	参与者是公司各个部门的高层和中层管理人员，收据的收集方式是半结构式的采访和会议的观察，采访涉及到公司的管理控制系统，文化和信息系统。

研究所获得的信息，包括这个研究参与者知情同意书将被严密（例如：将不会转给其他人）和进行匿名处理（例如：个人和公司的名字不会被提及）。

以上涉及到研究本质的所获得的数据为满足不同的读者可能会以不同的形式被复制和出版

除以上条款，没有你的许可将不会用于其他目的。

参与者是完全自愿参加而且可以在任何时期退出。

签订这个表格，就意味着在上述的基础上你完全理解以上内容和同意参加这项研究

参与者姓名

时间

学生名称

时间

## Appendix I: Managers Interviewed

Interviewee	Job Title	Level/Role	Function Area	Date	Interview place	Length
I1	Director	Top level	Retail	07/03/2011	Office	1:55
I2	General manager	Senior manager	Planning and Finance	07/03/2011	Office	1:25
I3	Deputy vice manager	Middle manager	Planning and Finance	08/03/2011	Office	1:45
I4	General manager	Middle manager	IT	08/03/2011	Office	1:25
I5	General manager	Senior manager	Audit	09/03/2011	Meeting room	1:35
I6	General manager	Senior manager	Law and Compliance	09/03/2011	Office	1:32
I7	Deputy vice manager	Middle manager	Law and Compliance	09/03/2011	Office	1:18
I8	General manager	Senior manager	Retail Business	10/03/2011	Office	1:37
I9	General manager	Senior manager	International business	11/03/2011	Office	1:39
I10	Deputy vice manager	Middle manager	International business	11/03/2011	Office	1:26
I11	General manager	Senior manager	HR	14/03/2011	Office	1:46
I12	Deputy vice manager	Middle manager	HR	14/03/2011	Meeting Room	1:23
I13	Sub-branch general manager	Senior manager	Sub-branch	15/03/2011	Office	1:40
I14	Sub-branch general manager	Senior manager	Sub-branch	16/03/2011	Office	1:30
I15	Sub-branch general manager	Senior manager	Sub-branch	17/03/2011	Office	1:28

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